





## NEWS: INTERNATIONAL

# Italian bank chief warns on economy

By Robert Graham in Rome

MR Carlo Azeglio Ciampi, governor of the Bank of Italy, warned over the weekend that the Italian economy remained exceptionally fragile despite the decision to lower the discount rate by one percentage point, to 14 per cent, effective as of today.

Addressing the annual meeting of the Foreign Exchange Association he said the next six months would be decisive in determining whether the correct policies could be implemented. "During the next six months everything is at stake."

The Forex meeting has traditionally been the occasion for one of the governor's two set-piece statements on the economy. Mr Ciampi did not mince his words and reminded the government, political parties, business and unions that each had to play their part in holding down inflation, ensuring the 1993 budget was rigorously observed and advantage was taken of the lira's devaluation.

He laid special emphasis on the fight against inflation following the lira's 16 per cent

devaluation against the D-Mark and its float outside the Exchange Rate Mechanism. "If we are not able to take advantage [of the opportunity presented by devaluation], and the increase in prices is translated into real inflation, then we will have lost an historic opportunity."

Inflation in October has continued its downward trend and is hovering near an annual 5 per cent. However, the effect of devaluation has yet to work through the economy and already a number of industrialists and businesses in the food sector are trying to raise prices.

Mr Ciampi was cautious about a further, quick, reduction in interest rates, even though real rates remained high. He also warned the banking system that the central bank would monitor carefully the use of credit, to avoid it being used speculatively.

Referring to the parity of the lira, he said it was "manifestly under-valued". However, he gave no indication when he thought the lira might be in a position to re-enter the ERM.

## Study hits France's stand over grain

By David Buchan in Paris

FRENCH grain exports will suffer almost as much under European Community farm policy reform, which Paris has already agreed to, as they would under US demands on grain exports, according to projections from an official French institute.

A chief cause of the deadlock in the Gatt trade liberalisation talks is the US demand that the Community should cut the volume of its subsidised cereal exports by 24 per cent over six years. France has refused to agree to this.

However, EC grain exports will fall to 14.8m tonnes a year by 1996 because of reductions agreed under the EC's Common Agricultural Policy, according to estimates by Insee, the French government economic research arm, in a report published today.

Its forecast is just under 1m tonnes more than the level of subsidised EC grain exports envisaged by the US in the Uruguay Round of the Gatt.

The Insee projection appears to undermine the French government's case that French cereal exporters, by far the largest in the Community, would be worse off under a Gatt deal than under the CAP reform.

France objects particularly that the US wants the grain exports cut made from the level in 1986-88 when, according to the Insee report, EC cereal exports averaged only 15m tonnes. Since then such EC exports have climbed to nearly 26m tonnes a year.

But even a 24 per cent cut from the 1986-88 level would bring EC grain exports to not much below 14m tonnes a year.

EC officials in Brussels have been trying to put the same message as Insee across to Prime Minister Pierre Bérégovoy's government, but without much success so far. The beleaguered Socialist government evidently hopes a tough stand on Gatt will help it in next March's legislative elections.

The Insee report, however, suggests that EC and French farmers might have difficulty selling even a reduced amount of grain exports in competition with US farmers, if subsidies were reduced.

The study claims that US agriculture is more productive than any national farm sector inside the EC, except that of the Netherlands. The report claims that, over the 1973-89 period, US farmers have shown themselves to be 30 per cent more productive than the average European farmer.

American farmers' competitive edge over their EC counterparts is reflected in the fact, says Insee, that overall their farm prices were 20 per cent lower than in Europe between 1973-89, with US oilseeds and animal feed prices nearly half those in Europe. US farmers benefit from lower costs of land, petrol, fertiliser, and vegetable inputs into animal feed than in Europe, the French government organisation says.

But CAP reform, it adds, will make French farmers better off than they would otherwise be in the absence of reform.

## German bank 'aims for interest rate cuts'

By Quentin Peel in Bonn and David Waller in Frankfurt

THE GERMAN Bundesbank is deliberately manoeuvring interest rates down because their high level no longer corresponds to the deteriorating economy, according to a member of its governing council.

Dr Wilhelm Nolling, a Social Democrat who is also president of the Hamburg state central bank, said "all the figures show that Germany is moving into a recession.... On this occasion it could be very long-lasting and very deep."

The interest rate moves amounted to a clear turning point in German monetary policy, but the Bundesbank had to move very carefully at the speed with which it cut the rates, he said.

In an interview in today's Hamburger Abendblatt newspaper, Dr Nolling said there were still significant risks for monetary stability. They included excessive money supply growth, wage negotiations, and a possible sharp increase in consumer spending before next January's 1 per cent point increase in VAT.

"Because of this, the Bundesbank must act very carefully, consistently and credibly in the pace of its interest rate cuts," he said. There was also a threat of imported inflation if over-hasty cuts caused a depreciation of the D-Mark.

Meanwhile, Mr Otmar Issing, a leading member of the Bundesbank council and head of research, said at the weekend that western Germany was not in recession and its economy would grow by 1.5 per cent this year.

However, he acknowledged there had been a "perceptible slowdown" of economic growth, mainly because of a lack of demand for German products abroad. This was leaving an ever-clearer mark on the west German economy.

His comments, made during a lecture in Edinburgh, come as evidence mounts of stagnation in the whole economy. Retail sales and industrial orders have fallen for the sixth consecutive month and several large companies have announced job cuts.

Mr Issing made no comment on the future orientation of monetary policy. However, a report in the Frankfurter Allgemeine Zeitung, a leading German newspaper, on Friday suggested the Bundesbank had given the impression at a meeting between senior Bundesbank officials and economists of Germany's larger banks last week that it was committed to further cuts in short-term interest rates. But they would have to take effect slowly because of the danger that the central bank would lose credibility in the battle against inflation.

In his address in Edinburgh, Mr Issing said that although recent figures showed real gross domestic product in western Germany in the second quarter dropped by 0.5 per cent compared with the first quarter, it exceeded GDP for the second quarter of last year by "a good 1 per cent".

Survey, Section III



REFLECTIONS ON WAR: Bosnian President Izetbegovic in his Sarajevo office

# Peace negotiators build Balkan castles in the air

IT IS almost two months since Mr Cyrus Vance, former US secretary of state, and Lord Owen, former British foreign secretary, were appointed as joint international mediators for ex-Yugoslavia. There has been no discernible improvement for the people of Bosnia-Herzegovina.

The fighting continues, thousands are still being forced from their homes in renewed "ethnic cleansing" by all three communities, and the besieged inhabitants of Sarajevo, the Bosnian capital, face death this winter from cold, hunger and disease.

Yet in the makeshift offices of the International Conference on Former Yugoslavia in the United Nations headquarters in Geneva, there is cautious optimism. The feeling is that a peaceful solution is possible before winter is out. Brick by brick, negotiators say, construction of that peace has begun.

The immediate goal of Mr Vance and Lord Owen as conference co-chairmen has been to stop the fighting in Bosnia and lift the Serb blockade of Sarajevo and other Bosnian cities. Given the refusal of the world community to intervene militarily in the Bosnian conflict, they are operating what levers they have.

First they have used their personal authority, contacts and (in contrast with the ill-fated Carrington talks) concerted international backing to win the confidence of all sides and to try to get them talking to each other and to the co-chairmen. "We are not here to take sides but to find a solution as rapidly as possible," Mr Vance said recently.

Though the mainly Moslem Bosnian government refuses to meet the Bosnian Serb leadership face to face, last week it ended its boycott of talks on the demilitarisation of Sarajevo. The Bosnian president, Mr Alija Izetbegovic, also met Yugoslav president Dobrica Cosic face-to-face for the first time.

Second, the two mediators have laid great stress on normalising relations between Croatia and the rump federal republic of Yugoslavia, consisting just

of Serbia and Montenegro. This reflects not only the need to defuse possible flashpoints, for instance, in the Serb-controlled UN protected areas of Croatia or the Prevlaka peninsula, but also to enlist the leaders' active backing for an ethnically mixed Bosnian state.

Inducements include international economic aid to rebuild their shattered economies and the lifting of sanctions on and diplomatic recognition of what remains of Yugoslavia.

Third, the two co-chairmen, and the constitutional broker for Bosnia, Mr

have been told that three ethnic cantons are out of the question, want as few separate regions as possible.

Mr Ahtisaari says that whatever the eventual number there can be no neat slicing of Bosnia on ethnic lines. Even now, for instance, though Bosnian Serbs claim to control 70 per cent of the territory, the mainly Moslem government holds Bihac in the north-west, as well as Sarajevo and some other towns to the east.

Moreover, the constitutional principles drawn up (and accepted by all sides) at the London conference on ex-Yugoslavia at the end of August include the right of people to return to their homes. Though no one expects all those expelled to go back (deterred by memories, fear and the destruction of homes and property), some, perhaps many, will choose to do so if conditions are right. Areas claimed, say, by Serbs as "theirs" may not remain so.

While the fighting and suffering continues in Bosnia, all this may seem pie in the sky. Many believe the outcome of the Geneva negotiations can only be an acceptance of the fait accompli achieved by Bosnian Serbs militarily. The negotiators in Geneva reject this view, while arguing that within the basic principles the three sides must reach their own accommodation.

Equally, there is a hard-headed appreciation that the negotiations could fail. Gains by hardliners in the Belgrade power struggle, continued insistence by the Bosnian government on trying to win back territory by force, or refusal by Serb and Croat warlords in Bosnia (and Serb-controlled Croatia) to toe the line, could bring the fragile edifice crashing down.

The co-chairmen will give it their best shot, says one insider. "But if by January there's no imminent prospect for a settlement, they're unlikely to stick around," Mr Ahtisaari's leave of absence from running Finland's foreign service expires next February. Time, and the bitter Bosnian winter, are pressing.

## Time and the Bosnian winter are pressing, writes Frances Williams in Geneva

Martti Ahtisaari, have told all three warring factions that there can be no partition of Bosnia-Herzegovina on ethnic lines and no "green line" separating communities in Sarajevo.

The draft constitution that the co-chairmen plan to publish tomorrow envisages a single secular Bosnian state within existing borders, divided into regions or provinces with a high degree of local autonomy.

The constitution will include strong protection for human rights and there may be some provision for international human rights monitoring during the transition phase. "The local governments will be able to safeguard ethnic rights, such as education and culture, with protection for minorities," says Mr Fred Eckhard, spokesman for the co-chairmen.

The three parties are now wrangling over maps, both in Geneva and, to an extent, in fighting on the ground. The Bosnian government, which had wanted a unitary state, says it could accept 8-10 provinces, enshrining Moslem majorities in key Bosnian towns. The Bosnian Serbs,

## Chilean sell-off likely to run into opposition

By Leslie Crawford in Santiago

CODELCO, the Chilean state copper company and the world's biggest copper producer, plans to sell its power plant in the Atacama desert to finance development of a new \$450m (\$276m) copper mine.

Mr Maximo Pacheco, Codelco's operations vice-president, said the company hoped to raise \$50m from the sale of the 530MW coal-fired power station at Tocopilla.

He said Chilean and Argentine utilities were interested in the purchase, as Tocopilla fed electricity to the two biggest copper mines in the world, Chuquibambilla and La Escondida, as well as cities in northern Chile.

The decision, which amounts to privatisation of one of Codelco's divisions, is highly controversial. Codelco's public ownership is enshrined in the Chilean constitution and has been an article of faith since the industry was nationalised in the 1970s. But Codelco executives argue that the constitution refers only to the state company's copper deposits.

The sell-off is certain to meet opposition from the powerful copper workers' union. "We have assurances from the mining minister that Tocopilla will not be sold," says Mr Adrian Astubillo, a union leader at the power plant. Any backtracking would provoke the 19,000-strong copper union into taking strike action, Mr Astubillo said.

President Patricio Aylwin has also repeatedly assured copper workers that Codelco would remain in state hands.

## Brazil acts on threat to trade agreement

By Christina Lamb in Canela, southern Brazil

BRAZIL's foreign minister flew to Buenos Aires at the weekend to meet Argentine officials in an attempt to resolve the trade imbalance threatening Mercosul, the nascent free trade arrangement.

A shift in trade in favour of Brazil was straining relations between the two neighbours. Mr Fernando Henrique Cardoso said earlier at a Mercosul conference in Canela. "You cannot have a good accord when just one side is winning," he said.

The gap has emerged because of Argentina's relatively low import tariffs and what is generally perceived to be an overvalued exchange rate. The country is heading

for its first annual trade deficit in 11 years.

Brazil has been the main beneficiary of its sales to Argentina, rose 142 per cent in the first half. This year it expects a \$1bn surplus with Argentina.

Mr Cardoso said he would tell Mr Domingo Cavallo, the Argentine economy minister, that Brazil was willing to compensate through purchases of Argentine oil and increased quotas on wheat and flour. He added the problem had nothing to do with the Mercosul treaty, which was generally working well.

But some participants at the Canela conference warned that Brazil's failure to achieve economic stability could threaten the agreement between Brazil, Argentina, Paraguay and Uruguay.

## Capital flows to Latin America trigger problems

By Stephen Fidler, Latin America Editor

A SHARP increase in capital flows last year to Latin America caused problems for economic management in many countries, the Inter-American Development Bank says in a report on economic and social progress published today.

A more gradual and sustainable influx would have been preferable, the bank adds. Capital inflows to the region, estimated last year at \$36bn (\$22bn), had reached levels the IADB had assumed would not occur until the end of the century. Such flows had repercussions, some negative, on interest rates, money supply, inflation, interest rates and wages.

In principle, the inflows of capital were beneficial as they relieved the decade-long constraint on investment and production caused by a lack of foreign exchange. However, in many countries the inflows meant governments had to either let real exchange rates appreciate and absorb the inflows through imports, or maintain the exchange rate and allow foreign exchange reserves to rise.

Expanding reserves threatened monetary stability and had to be offset by restrictive monetary and fiscal policies. If monetary policies were too stringent, however, the resultant high interest rates initiated a new round of capital inflows.

Mexico probably struck the best balance, the report says, by running a fiscal surplus

which in 1991 allowed the government to pay back debt and continue to lower interest rates. Colombia had the greatest difficulty in dealing with the problem: in 1991 its foreign exchange reserves reached 16 months of imports, the highest in the region.

Attempts by, for instance, Colombia's central bank to mop up extra liquidity have counteracted a general trend to lower real interest rates. Such rate rises meant there had been "no visible benefit of the inflows of capital to the national economies in terms of increased investment or faster growth."

The combination of real exchange rate appreciation, lower inflation and reduced unemployment allowed for a recovery of real wages in the region in 1991.

Overall, the report presents a fairly positive outlook for continued capital inflows, provided the region's integration into the world economy continues. "Although there has been much talk lately of a worldwide capital shortage, this shortage is unlikely to affect Latin America as long as profit opportunities abound and the rate of return exceeds that in the industrial countries."

However, it was too early to say for sure whether the positive transfer of resources to the region brought about by the capital inflows was a durable or transitory phenomenon.

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## Plea over emerging economies

By Stephen Fidler

BETTER co-operation is needed between export credit agencies, private lenders and investors if developing countries and those of east and central Europe are to meet their huge requirements for new infrastructure in the 1990s, according to the Washington-based Institute of International Finance (IIF).

The institute, which speaks on behalf of international banks, said both private and official lenders would also have to re-examine lending criteria and develop new financing and risk-sharing techniques, particularly since many developing countries were privatising state-owned enterprises.

The IIF's proposals, which stem from a study of banks, corporations, trading companies and insurance groups, suggest that:

- Export credit agencies should establish guidelines to extend, where necessary, grace periods before loan repayments start coming due and the pay-back periods for loans. Current maximum terms are insufficient for projects where economic returns are only made over a longer period. More flexibility should be introduced for interest payments, currently payable on a strict semi-annual basis, while agencies should allow their guarantees to be securitised by banks and transferred to others.

- Agencies should develop new forms of support for banks as fixed-rate lenders by recognising the role of interest rate swaps and other derivative products in the financial markets.

- Agencies should standardise cover to allow easier negotiations of credits for projects where companies from more than one country are providing goods, services and products.

- Agencies should be willing to provide increased political risk insurance.

- Greater standardisation of premium rates among export credit agencies is required.

- National bank regulators should try to apply more equal treatment of transactions guaranteed by export credit agencies, and adopt a more flexible attitude to the provisions required.

## Cuba defies US move to tighten trade sanctions

By Canute James in Kingston

THE Cuban Communist party said the latest US economic sanctions against the Caribbean island would not change its commitment to socialism but would reduce the chances of a diplomatic end to the 30 years of hostility between the two countries.

The new sanctions imposed at the weekend by President George Bush represented "a pirate's licence", according to the official media in Havana, the Cuban capital. They are contained in legislation described in Washington as the "Cuban Democracy Act" (also called the Torricelli Bill), which bans foreign subsidiaries of US companies from doing business with Cuba.

Ships which call at Cuban ports will be banned from US ports for six months.

The sanctions have already been rejected by several countries which trade with Cuba, including members of the European Community, Canada and Mexico, and have been condemned as an unfair trade practice by the shipping industry in Cuba's Caribbean neighbours. Earlier this month the European Commission lodged a formal protest and the UK government said last week it would invoke an existing law to prohibit UK companies owned by US interests from complying with US legislation.

US legislators supporting the measures said they are intended to force the administration of President Fidel Castro towards democracy.

The Cuban Communist party said the move indicated unlimited "visceral hatred" of the Cuban people, and referred to a recent statement by Mr Castro that Cubans were willing to undergo "death a thousand times" rather than abandon the island's socialist ideology.

If the new sanctions are even partially effective they will be a further blow to a Cuban economy reeling from shortages of energy and hard currency following the collapse of the Soviet Union, formerly Cuba's main foreign beneficiary. The new measures are likely to be debated soon at the United Nations when Cuba's efforts to have the 30-year-old US trade embargo on the island ended will be discussed.



Fidel Castro: Cubans will not abandon socialist ideology

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## ROW WITH SLOVAKIA ERUPTS

## Hungarians furious over work on dam

By Nicholas Denton  
in Budapest

SLOVAKIA began damming the river Danube at the weekend to divert the river into the controversial Gabčíkovo hydro-electric barrage. The move prompted furious diplomatic protests from neighbouring Hungary which is resisting the project.

Slovakian trucks began dumping rocks into the river after negotiations with Hungary in Brussels last week under European Community auspices broke down in acrimony.

Budapest reacted immediately by saying it was turning to the Conference on Security and Co-operation in Europe (CSCE) and invoking the international crisis procedures previously applied to the former Yugoslavia.

Hungary also filed an appeal to the International Court of Justice in The Hague even though Czechoslovakia has refused its jurisdiction.

The EC Commission appealed for both sides to exercise restraint and called for an urgent solution to avert a confrontation which could endanger stability in central Europe.

Slovak and Hungarian negotiators will meet again next week as part of the Visegrad central European group's talks with the EC, which are expected to be overshadowed by the dam dispute.

Germany is understood to be exerting strong pressure on the

Czechoslovak government to exercise its authority over Slovakia while the country remains united and to freeze construction work until there is a negotiated settlement.

But Slovakia's decision to move ahead with the final stage of construction, which will result in the diversion of the main flow of the Danube in the next few days, makes agreement all but impossible.

The two sides have slid into a confrontation from which neither government can retreat without loss of face and domestic political opposition.

Slovakia claims that the dam is essential to generate energy and to bolster the country's economy. It says it will also enable year-round shipping on the Danube.

Hungary, however, claims that the diversion of the river, which marks the international boundary between the countries, is a territorial violation. Environmental groups say the project will cause catastrophic changes in the water table and the water supply to local inhabitants.

The dam dispute is made all the more explosive by the presence of a large ethnic Hungarian minority in Slovakia near the construction site.

The atmosphere of Slovak-Hungarian relations has become increasingly hysterical as the deadline for the Danube diversion has approached, with rumours and subsequent denials of military manoeuvres proliferating.

## Havel undaunted by failure of federalism

Ariane Genillard on the former president's plans for a comeback

ONLY the 0001 licence plate on the BMW occasionally parked in front of the decrepit three-floor house in Prague betrays any sign of the importance of its resident.

Back in his modest home since he resigned as federal president in July, Mr Vaclav Havel has not lost sight of the presidential castle. In recent weeks, he has been staging his political comeback as the future president of an independent Czech republic. The last champion of the Czechoslovak federation, forced by Slovak nationalist aspirations to abandon his dream of a united and prosperous country, does not admit failure.

"We must come to terms with the fact that things don't always come out the way we would want them to. I have experienced many such failures and defeats and shall experience them again, but it will not prevent me from striving again and again for certain values," he said in an interview with the Financial Times.

After two years of struggling with the divisions ripping his country apart, Mr Havel is hoping to return to his role of consensus builder - this time within the Czech lands.

As the only presidential can-

didate endorsed by all Czech political parties, Mr Havel is offering himself as a mediator to mend growing differences over the future shape of the 10m-strong Czech nation.

Unlike Slovak parliamentarians who promptly declared their republic's sovereignty after last June's elections and adopted a local constitution, Czech politicians have been deadlocked over the creation of their state.

Constitutional negotiations have been bogged down partic-

ularly by the demands of opposition parties for a three-pronged administration in which the northern and eastern regions of Silesia and Moravia would enjoy an autonomous status. Such fragmentation is rejected by the ruling coalition parties, led by the Civic Democratic Party of Mr Vaclav Klaus, which favours a structure decentralised among a greater number of regions.

Unless consensus is reached, the Czech nation could find itself without the constitutional framework needed to decide on the presidential powers, which could be limited if Mr Klaus's views predominate.

Mr Havel speaks admiringly of President Richard von Weizsäcker of Germany but says he does not wish to hold only a titular role in Czech politics.

Yet critics say that the former playwright cannot have it both ways. The reluctance of Mr Havel to step into the world of practical politics and form his own party-driven power base contradicts his political ambitions, they say.

Faithful to his intellectual past, Mr Havel rejects pure pragmatism. "People need to hear something about the meaning of life; something about their prospects; something more than money... Shocked by sudden freedom though not able yet to build their own civic society, they tend to be more or less drawn towards authoritarian leaders. However, I see it as one of the many stages of the complicated post-communist development."

But he is closer today to practical politics than is indicated by his earlier political philosophy, which attempted to marry morals and public office. The virtuous advocate of citizens' rights no longer even calls for a referendum on his country's division.

"Alienation from high politics is something that can be observed to a smaller or greater extent in all democracies. Here, it is sharpened by the fact that our democracy is so young and inexperienced. But the Czech and Slovak voters elected leaders with clear programmes and should not be surprised once they implement them, even if it is difficult for them to come to terms with the fact that Czechoslovakia will cease to exist within less than 70 days."



Faithful to his intellectual past, Havel rejects pure pragmatism

## The ex-playwright wants to hold more than a titular role

decide on the presidential powers, which could be limited if Mr Klaus's views predominate.

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## Gaidar secures business backing

By Leyla Boulton in Togliatti, Russia

THE embattled Russian government of Prime Minister Yegor Gaidar yesterday received desperately needed support from heads of the country's biggest industrial enterprises in return for a promise to consult business leaders when formulating government policy.

Mr Gaidar, accompanied by six senior cabinet ministers, told a meeting of 60 industrialists from around the country that he would today sign a decree establishing a council of industrial leaders which would be consulted on elaborating government policy.

A statement of support from the industrialists implicitly repudiated the more aggressive stance taken by Mr Arkady Volosky, the head of a big industrialists' lobby group who co-chairs the country's leading opposition movement.

The meeting in Togliatti, the home of Lada cars and other large industrial concerns, was part of a last-ditch government campaign to attract support from industry.

The ministers announced a number of concessions to placate some of the managers' complaints. From next January profits ploughed back into capital investment will be free from taxation. In addition parts and raw materials ordered before but delivered

after the imposition of new import taxes would also be exempt from taxation. But Mr Gaidar also appealed for managers to limit price increases and said a policy of endless new credits from the government would lead nowhere.

He also announced that he enjoyed, at least for now, the full confidence of President Boris Yeltsin, despite demands from a vociferous conservative opposition for the removal of his reformist cabinet when the Russian parliament convenes on December 1.

The meeting provided a stark illustration of the government's failure until yesterday to cultivate leading managers, or fully to explain its decisions.

The directors at the meeting ranged from an older generation, which sympathises with Mr Volosky but is prepared to support any government which supports it, to younger directors more in touch with western business practice.

"Those directors who ask for more money are expressing yesterday's views," said Mr Victor Korovin, the 40-year-old chief of the Uralmash heavy engineering works in Yekaterinburg. "But the government needs to change its tactics to maintain its previous strategy." By way of example, he said he could not successfully privatise his enterprise until the government took on the social services and housing still on his balance sheet.

## Lithuanians go to polls

VOTERS in the Baltic republic of Lithuania went to the polls yesterday to elect a new parliament in the first elections since the state achieved full independence last year, writes John Lloyd in Moscow.

The result is expected to be a close one. The main contenders are the Sąjūdis nationalist group of Mr Vytautas Landsbergis, the parliamentary chairman, which achieved

independence for the country, and the Democratic Labour party under the former communist leader Mr Algirdas Brazauskas.

In all, 17 parties are standing for the Sejm, or parliamentary assembly.

The country is in the grip of severe fuel shortages and an economic crisis, with unemployment expected to climb sharply this winter.

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## NEWS: INTERNATIONAL

## Patten raises stakes over Hong Kong's future

An unprecedented contest is looming, writes Simon Holberton

THE SHARP deterioration in relations between Britain and China over Hong Kong's political future is expected to cast a pall over the colony's financial markets today.

Analysts in Hong Kong noted that the stock market, which had risen strongly in response to the economic policies recently announced by China's communist leaders, had already weakened on Friday before the full significance of the rift had become apparent. They expected it to decline further.

Relations between the UK and China have deteriorated markedly since Mr Patten, with the general support of the Hong Kong people, announced proposals on October 7 for elections in 1994 and 1995, which would allow for greater, though still limited, democracy in choosing local leaders.

Since then, the governor has repeatedly held out the possibility that he will proceed with his plans even in the face of opposition from China - marking an important change in British policy towards Hong

Kong and China. In the past London has placed a priority on reaching agreement with Beijing.

Such a head-to-head contest between Beijing and Britain's governor in Hong Kong would be without precedent in the colony. It would require from the people of Hong Kong a defiance of Beijing which many of their business and political leaders have been reluctant to make for fear of damaging their interests.

Mr Patten presented his plans to officials in Beijing on a three-day visit last week and told them he needed a decision by the end of the year. His proposals were flatly rejected.

On Friday, Lu Ping, China's top official on Hong Kong affairs, said Beijing would challenge the validity of future elections and abrogate agreements to build the colony's multi-billion dollar airport if Mr Patten proceeded without China's agreement.

The airport and its associated infrastructure projects have been a running sore in Anglo-Chinese relations since the project was announced, in the aftermath of the June 1989 uprising in Beijing, as a confidence boosting measure for the colony. Agreement to proceed with the HK\$163.5bn project was only reached a year ago when Mr John Major, Britain's prime minister, visited Beijing.

Since then China has found fault with two alternative financing proposals put to it by the Hong Kong government. It claims that both are not cost-effective and would put an onerous financial burden on the post-1997 government in Hong Kong - charges which find little support in Hong Kong's financial community.

The government had already let 17 contracts worth HK\$15bn - HK\$3bn under budget. Mr Patten has said the government would do its best to complete the project in the absence of the Chinese government's approval. But Lu's threat, calculated to scare the international financial community, could make it difficult for the government to raise external finance to fund the project.

La held out little hope of agreement on either constitutional or airport related matters. He claimed that the government's plans violated the 1984 Anglo-British Joint Declaration on Hong Kong and the Basic Law, which will act as Hong Kong's post-1997 constitution.

He also asserted that Mr Patten's plans ignored assurances given by Mr Douglas Hurd, Britain's foreign secretary, to Qian Qichen, his Chinese counterpart, on the conduct of the

**The governor has indicated that he may proceed despite China's opposition**

1995 polls. In a robust performance before a special session of the Legislative Council (LegCo) on Saturday, Mr Patten reissued his challenge to Beijing to respond with constructive alternatives to proposals he made on October 7 for the colony's political development.

The governor said he was prepared to discuss these alternatives with China but reminded legislators that any alternative had to be fair, open and command the support of the people of Hong Kong. They also had to be agreed soon as legislation would have to be placed before LegCo early in the New Year.

During the special sitting of LegCo, Mr Patten proposals were endorsed by liberal politicians and some independents. Conservative politicians did not declare their position. Some of the colony's newspapers also expressed concern about China's reaction to the governor's proposals.

With an eye on these legislators, the governor reminded the members of LegCo that it is they who will have to pass any legislation drawn up to provide for the forthcoming elections.

"We should all be clear on where we stand," he said. "Nothing can absolve members of this council from taking a view on the future political development of Hong Kong."

The proposals, which Mr Patten believes are consistent with Anglo-Chinese agreements and Chinese law, provide for a greater, though still restricted, application of democracy in the conduct of future elections.

Mr Patten denied that the UK had given China the undertakings Lu claimed. He said he had no objection to letters from Mr Hurd and Qian being made public. That decision, however, is not his.

The government is bracing itself for a further onslaught on Mr Patten's plans from the colony's pro-Beijing press.

## Jordan hardens line on Baghdad

By Hugh Carnegie and Mark Nicholson in Amman

JORDAN appears to be preparing to distance itself in unprecedented terms from the Iraqi regime of President Saddam Hussein.

Palace and government officials in Amman are expressing alarm over the deterioration of conditions within Iraq and fear the prospect of the country's disintegration.

King Hussein is expected later this week to make his first speech since returning home in late September to a triumphant welcome after cancer surgery in the US. Diplomats say he may use the occasion to dissociate himself publicly from the regime in Baghdad, while continuing to express Jordan's support for the Iraqi people.

The palace and the government fear that Iraq is heading towards fragmentation. "We are afraid of the consequences of an Iraqi breakup. It would be a black hole, sucking all the powers around it into a vortex," said Mr Kemal Abu Jabbar, the foreign minister.

Jordan is frustrated that Mr Saddam has ignored its appeals for policies which could ease Iraq's international isolation, allow increased aid for its beleaguered population and safeguard its territorial integrity.

Jordan's strong popular support for Baghdad during the Gulf crisis and official opposition to the war which ousted Iraq from Kuwait were the most vehement of any Arab country, leading to its own isolation from the US and its Arab neighbours.

Nevertheless King Hussein, whose domestic popularity has soared since his illness, may feel he has never been in a stronger political position to distance himself from Mr Saddam. He has already had meetings in London last month with Iraqi opposition figures.

A marked public shift away from the Saddam regime would help Jordan's rehabilitation with the US and in particular Saudi Arabia. On Tuesday, King Hassan of Morocco is due to visit Jordan after talks in Jeddah. Diplomats say King Hassan, who is also visiting other countries in the region, is on a mission to heal Arab rifts caused by the Gulf crisis.

King Hussein has already had a public reconciliation with President Hosni Mubarak of Egypt when he visited Cairo after this month's earthquake. He has also made it known he wishes to make a pilgrimage to the Holy Places in Saudi Arabia to give thanks for his recovery during which he would hope to see King Fahd.

## NEWS IN BRIEF

## Bank deadline for Indian dam plan

WORLD BANK shareholders have warned the Washington-based organisation that they will cut off money for the controversial Sardar Sarovar dam and canal projects on India's Narmada river if new performance benchmarks are not met by April, writes George Graham in Washington. But the bank's executive board, representing individual member countries or groups of countries, voted to continue financing Sardar Sarovar while efforts are made to meet criticisms of the project's impact on the environment and on more than 200,000 people who will be displaced.

## Exports up 9% in Singapore

Singapore's exports rose 9 per cent in September over the August figure, the Trade Development Board said, writes Kieran Cooke. Analysts say that if export growth is maintained Singapore's GDP could grow by about 6 per cent this year.

## S African homestead massacre

Fifteen gunmen with automatic rifles massacred 20 people and wounded 27 in a raid on a homestead near Durban, South Africa, on Saturday night, Reuters reports from Johannesburg.

## Troops fire on Kashmiris

At least 28 people were injured on Saturday as Pakistani troops opened fire to stop thousands of Kashmiris agitating for an independent state from crossing the border into India, writes Shiva Sidha in New Delhi. Mr Amanullah Khan, leader of the march and chief of the militant Jammu and Kashmir Liberation Front, was arrested.

## Tourists stabbed in Egypt

A man believed to be a Moslem militant stabbed and wounded three Russian tourists yesterday at a marketplace in Port Said, Egypt, Reuters reports quoting security officials. On Wednesday a British woman was killed and two British men wounded when gunmen ambushed their safari vehicle in Upper Egypt.

## Chinese arrest HK reporter

A Hong Kong journalist with the Express newspaper was arrested in Beijing yesterday on charges of bribing officials to get secrets, according to the official Xinhua news agency, Reuters reports.



Tokyo students wearing cartoon masks of political leaders poke fun at the current power struggle inside the ruling LDP party

## Tokyo government on knife edge

By Charles Leadbeater in Tokyo

THE first indication of whether the Japanese government has been weakened by the unfolding power struggle over the leadership of the ruling Liberal Democratic Party's largest faction will come late this week when the government unveils political reform plans.

As the vicious infighting over the leadership of the Takeshita faction continued unabated yesterday, Mr Koichi Kato, chief cabinet secretary, said the 18-point plan would not propose overhauling the electoral system. It is likely to include measures to confiscate illegal political contributions.

Many analysts believe the costs of the electoral system, based on large multi-member constituencies, is largely responsible for the prevalence of political corruption.

Mr Kiichi Miyazawa, prime minister, will outline the reforms to parliament which reconvenes on Friday in response to the controversy over the Sagawa Kyubin political contributions scandal.

The scandal prompted the power struggle in the Takeshita faction, which has played a vital role in managing the passage of legislation through parliament, after Mr Shin Kanemaru, its former chief was forced to resign.

Mr Kanemaru who wielded

immense power within the LDP admitted receiving ¥500m (25.5m) in illegal political contributions from Tokyo Sagawa Kyubin trucking company.

The Miyazawa cabinet's popularity has slumped largely because of the scandal and the ailing economy.

The vacuum created by Mr Kanemaru's departure has set off a struggle between supporters of his chosen successor, Mr Ichiro Ozawa, and an anti-Ozawa group. Mr Ozawa and his backers are contesting the nomination last week of Mr Keizo Obuchi as faction chief.

Parliament is likely to become the focus of the scandal, as Mr Noboru Takeshita, the faction's founder, has

promised to testify about his role in the affair. Japan's political leadership would be further destabilised if pressure mounted on him to resign.

Government officials are increasingly concerned that the infighting could spill over to delay passage of legislation to enact the ¥10,700bn emergency public spending programme announced in August.

The economic programme could become embroiled in the power struggle partly because Mr Tsutomu Hata, finance minister, has aligned himself with the Ozawa group.

About 86 per cent of parliamentary deputies are believed to want the electoral system overhauled.

## Daewoo chief may enter poll

By John Burton in Seoul

MR KIM WOO-CHOONG, founder and chairman of Daewoo, South Korea's fourth largest business group, has emerged as a possible candidate in December's presidential election.

The New Korea Party (NKP), formed only last Friday by politicians aligned with President Roh Tae-woo's majority faction in the ruling Democratic Liberal Party (DLP), is considering offering him its nomination.

Mr Kim has not ruled himself out but has expressed doubts about entering politics. The NKP recently staged a party revolt in opposition to the DLP presidential nominee, Mr Kim Young-sam, who heads another faction.

The conservative group has also contacted other prominent figures, including Mr Park Tae-joon, former chairman of Pohang Iron and Steel. Mr Kim Woo-choong and Daewoo have close political ties with the administration of President Roh, who is constitutionally barred from running again.

Mr Chung Ju-yung, founder and former chairman of Hyundai, the nation's biggest conglomerate, is also a candidate after forming the United People's Party earlier this year.

Mr Chung and Mr Kim are bitter business rivals. The former alleges Daewoo has largely prospered due to government support provided under Mr Roh and his predecessor.

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## INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES						JAPAN						GERMANY						FRANCE						ITALY						UNITED KINGDOM					
	Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)		Narrow Money (%)	Broad Money (%)	Short Interest Rate (%)	Long Interest Rate (%)	Equity Market Yield (%)	
1985	9.0	8.9	8.00	10.99	n.a.	5.0	8.4	6.82	6.51	n.a.	4.4	5.1	5.45	6.94	n.a.	8.2	7.4	10.03	11.74	n.a.	13.2	13.5	14.34	13.71	n.a.	4.7	13.2	12.32	11.03	n.a.	1985	4.7	13.2	12.32	11.03	n.a.
1986	13.6	8.3	6.49	7.67	3.43	9.8	8.7	5.12	3.35	0.84	9.9	8.3	4.94	5.90	1.79	6.9	6.8	7.79	8.74	2.65	10.4	7.9	13.25	11.47	1.41	4.0	15.3	11.02	9.87	4.35	1986	4.0	15.3	11.02	9.87	4.35
1987	11.6	6.5	6.82	8.39	3.12	10.5	10.4	4.15	4.94	0.65	9.0	7.3	4.03	5.14	2.21	4.1	10.0	8.26	8.46	2.75	10.4	9.8	11.32	10.58	1.94	4.7	14.8	9.77	9.52	3.60	1987	4.7	14.8	9.77	9.52	3.60
1988	4.3	5.2	7.85	8.84	3.61	8.4	11.2	4.42	4.77	0.54	9.8	6.4	4.34	6.48	2.61	4.0	8.8	7.94	9.08	3.69	7.8	6.9	11.24	10.54	2.71	6.8	17.0	10.41	9.69	4.48	1988	6.8	17.0	10.41	9.69	4.48
1989	1.0	3.9	8.99	8.49	3.43	4.1	9.9	5.31	5.22	0.48	8.3	5.7	7.11	6.94	2.22	8.0	9.5	9.39	8.79	2.88	7.4	8.4	12.41	11.81	2.46	5.9	17.5	13.96	10.30	4.36	1989	5.9	17.5	13.96	10.30	4.36
1990	3.7	5.3	8.08	8.54	3.80	2.8	11.7	7.82	6.91	0.65	4.5	4.5	8.48	8.71	2.11	3.8	8.0	10.32	9.82	3.19	8.1	17.4	11.88	11.87	2.84	5.3	16.1	14.82	11.53	5.07	1990	5.3	16.1	14.82	11.53	5.07
1991	8.0	3.2	8.07	7.85	3.21	2.6	3.6	7.21	6.37	0.75	5.2	5.6	9.25	8.44	2.36	-4.6	2.7	9.92	9.03	3.58	7.3	8.0	11.93	13.20	3.45	2.4	8.2	11.58	10.04	4.97	1991	2.4	8.2	11.58	10.04	4.97
4th qtr.1991	8.0	2.8	5.00	7.34	3.08	7.5	2.2	6.11	5.88	0.76	4.2	5.6	9.47	8.29	2.45	-4.8	2.7	9.98	8.80	3.61	9.0	8.3	11.84	12.92	3.50	2.9	6.1	10.61	9.72	5.03	4th qtr.1991	2.9	6.1	10.61	9.72	5.03
1st qtr.1992	11.0	3.0	4.17	7.29	2.99	8.5	1.7	5.01	5.49	0.88	4.3	5.6	9.52	7.91	2.31	-1.4	3.8	10.05	8.48	3.40	8.9	8.1	12.04	12.85	3.40	2.2	6.0	10.61	9.50	5.00	1st qtr.1992	2.2	6.0	10.61	9.50	5.00
2nd qtr.1992	11.7	1.9	3.85	7.37	2.97	10.5	10.4	4.58	5.83	1.04	6.4	7.9	9.76	7.96	2.28	-0.8	4.4	10.04	8.68	3.39	9.7	9.3	12.58	12.82	3.43	2.0	5.3	10.28	9.21	4.78	2nd qtr.1992	2.0	5.3	10.28	9.21	4.78
3rd qtr.1992	12.5	1.4	3.35	6.81	2.96	3.1	0.0	3.90	5.10	1.08	6.7	8.7	9.72	7.88	2.53	-1.4	4.4	10.58	8.90	3.67	9.7	9.3	12.58	12.82	3.43	2.0	5.3	10.28	9.21	4.78	3rd qtr.1992	2.0	5.3	10.28	9.21	4.78
October 1991	7.1	2.5	5.34	7.82	3.08	7.5	2.1	6.30	5.98	0.72	4.8	5.3	9.36	8.31	2.41	-3.1	4.2	9.82	8.78	3.50	7.4	7.5	11.40	12.83	3.51	2.6	6.4	10.45	9.72	4.83	October 1991	2.6	6.4	10.45	9.72	4.83
November	8.2	2.9	4.98	7.41	3.09	9.3	2.4	6.09	5.96	0.75	4.1	5.4	9.43	8.32	2.42	0.8	4.9	9.56	8.82	3.58	9.0	8.3	11.86	12.92	3.58	3.0	5.7	10.54	9.72	5.00	November	3.0	5.7	10.54	9.72	5.00
December	8.7	3.0	4.67	7.08	3.08	8.8	2.0	5.94	5.72	0.81	3.7	6.1	8.81	8.24	2.62	-4.8	2.7	10.10	8.81	3.77	10.5	9.0	12.47	13.03	3.67	3.1	6.3	10.84	9.68	5.25	December	3.1	6.3	10.84	9.68	5.25
January 1992	10.2	3.1	4.09	7.02	2.87	7.8	1.8	5.15	5.45	0.83	3.9	6.3	9.54	7.91	2.38	-2.4	3.8	9.99	8.40	3.49	11.1	9.4	11.97	12.71	3.37	2.1	6.3	10.71	9.49	5.00	January 1992	2.1	6.3	10.71	9.49	5.00
February	11.3	3.2	4.11	7.33	2.90	7.4	1.8	5.05	5.23	0.87	4.1	6.5	9.61	7.88	2.30	-2.2	3.8	10.08	8.44	3.40	8.1	7.8	12.04	12.82	3.31	2.2	5.9	10.44	9.34	4.94	February	2.2	5.9	10.44	9.34	4.94
March	11.5	2.6	4.29	7.52	2.94	7.5	1.8	4.84	5.51	0.93	4.9	7.0	9.70	7.94	2.25	-1.4	3.8	10.12	8.86	3.39	7.4	7.4	12.10	12.58	3.48	2.3	5.8	10.67	9.68	5.04	March	2.3	5.8	10.67	9.68	5.04
April	11.9	2.2	4.04	7.47	2.97	7.0	1.8	4.59	5.88	1.00	5.8	7.5	9.75	7.94	2.26	-1.5	4.1	10.04	8.87	3.37	9.8	9.3	12.24	12.71	3.51	2.3	5.6	10.68	9.41	4.91	April	2.3	5.6	10.68	9.41	4.91
May	12.2	2.0	3.88	7.38	2.96	6.9	1.1	4.59	5.68	1.00	5.8	7.5	9.79	7.99	2.28	-1.0	5.1	9.98	8.59	3.38	9.3	9.0	12.24	12.60	3.45	2.5	5.1	10.13	9.06	4.81	May	2.5	5.1	10.13	9.06	4.81
June	11.8	1.5	3.75	7.25	3.00	6.5	0.9	4.49	5.55	1.06	6.5	8.5	9.75	7.87	2.27	-0.4	4.4	10.11	8.73	3.47	9.4	8.6	13.26	13.14	3.54	1.3	5.3	10.26	9.15	4.82	June	1.3	5.3	10.26	9.15	4.82
July	11.7	1.6	3.44	6.84	2.96	6.8	0.2	4.18	6.26	1.10	5.5	8.3	9.78	6.01	2.37	-0.3	4.4	10.23	8.90	3.68	7.8	8.1	15.39	13.65	3.78	2.5	5.7	10.21	9.06	4.81	July	2.5	5.7	10.21	9.06	4.81
August	12.4	1.7	3.37	6.59	2.95	3.7	0.3	3.75	5.03	1.12	6.0	8.6	9.88	7.99	2.60	-1.0	4.2	10.39	9.06	3.71	5.4	6.5	15.27	13.71	3.94	2.4	5.5	10.43	9.37	5.33	August	2.4	5.5	10.43	9.37	5.33
September	13.5	2.0	3.24	6.41	2.98	2.7	-0.4	3.74	4.99	0.98	5.8	9.2	9.60	7.65	2.62	-1.0	4.2	11.12	8.75	3.61	5.4	6.5	17.82	14.74	4.35	2.1	5.1	10.54	9.18	5.14	September	2.1	5.1	10.54	9.18	5.14



# Fall in pay rises may be ending

By David Goodhart, Labour Editor

THE RAPID decline in pay settlements from the beginning of last year may have bottomed out, according to the latest quarterly figures from the Confederation of British Industry.

The figures show that the average pay settlement in the third quarter of this year was 4.2 per cent, the same as in the second quarter and only slightly down on the 4.4 per cent rise in the last quarter of last year.

Manufacturing pay settlements continue to hover just over 4 per cent, where they have been for the past 12 months.

Both the government and the CBI will be disappointed by the latest figures, especially in view of the removal of the European exchange rate mechanism discipline on pay bargainers and the exhortations to the public sector to follow the example of the private sector.

Mr Howard Davies, director general of the CBI, said there were strong indications that the next move on manufacturing pay would be downwards.

He pointed to the fact that one in seven of the CBI pay databank companies had deferred a pay rise for six months.

He also cited a Gallup survey finding that 65 per cent of employees expected their next settlement to be at or below the level of the last.

He added: "Lower pay increases over the next year would help to control inflation and put companies in a better position to take advantage of the opportunities for exports and import substitution opened up by devaluation."

CBI settlements in the service sector in the first half of this year are slightly higher, at 4.4 per cent, but have fallen more rapidly, down from

7.1 per cent a year before. Productivity growth for manufacturers settling in the third quarter was estimated at 2.2 per cent - reflecting a downward recessionary trend - giving an increase in unit labour costs of about 2 per cent. That compares with a fall in unit labour costs of about 0.5 per cent in the last quarter of last year, when productivity rose 5 per cent.

Average earnings in the economy as a whole continue to rise at about 5.75 per cent but that figure looks back over 12 months, including settlements from summer last year, when inflation was higher, and includes overtime and bonus payments not included in raw settlement figures.

Government ministers are arguing that public-sector employees should take more of the strain on pay and are threatening a pay freeze and the possible suspension of the pay review bodies which now recommend pay rises for more than a third of public-sector workers, including nurses and teachers.

Ministers point to the pay spurt that has taken average pay in the public sector above that in the private sector for the first time since 1986. They also point to the greater job security of most public-sector workers.

Critics of these arguments, such as Incomes Data Services, the independent pay analysts, point to the fact that the public sector always does better in a recession while the private sector pulls ahead in periods of rapid growth.

IDS also says that in spite of higher average pay in the public sector, both blue-collar and white-collar workers are better paid in the private sector. The higher average arises because the public sector includes a higher proportion of white-collar workers, who are generally better paid than manual workers.

# Midlands fear on single market

By Paul Cheeseright, Midlands Correspondent

THE WEST Midlands, regarded as the manufacturing heart of the UK, is not expected to benefit particularly from the European single market, scheduled for next year, according to the region's local authorities.

It is expected "to have above-average vulnerability" to the single market, yet will remain highly dependent on exports and its ability to compete with other European Community regions, says a study prepared by the authorities to help in the planning of land use into the next century.

The worry of the local authorities is that the older manufacturing areas in the Birmingham-Black Country conurbation and Staffordshire have too few skills available.

"By 2000 it has been estimated that 70 per cent of all European jobs will require brain rather than manual skills, yet levels of academic and skill attainment are relatively low in the west Midlands," the report says.

Although the demand of companies for skilled employees has fallen since the start of the recession, the local authorities say restructuring of the regional economy will be hampered by skills shortages.

The restructuring will involve a continuing decline in manufacturing employment.

The decline, swift in the 1980s recession, slower during the economic upturn of the late 1980s, has gathered pace again over the past two years. During the 1990s, manufacturing employment will decline by 20 per cent - 141,000 jobs - the local authorities estimated.

However, employment in the services sector is likely to rise by 9.6 per cent, but that is less than the expected national average of 11.8 per cent.

The West Midlands: your region, your future, *Making the Right Choices*. West Midlands Regional Forum of Local Authorities, PO Box 11, Martin Street, Stafford ST16 2LH.

# London fares 'highest in EC'

By Richard Tomkins, Transport Correspondent

THE LATEST fares rise for London Transport passengers will make commuter fares in the capital by far the most expensive in the European Community, according to a survey by the Association of London Authorities.

A typical week of commuting will cost £16 in London after the 8.5 per cent fare increase in January. The Labour-controlled ALA says that is 36 per cent more costly than in Dublin, the next most expensive city, where a similar pattern of journeys costs £11.77.

Other weekly fares based on similar journey patterns include Paris at £4.36 and Athens at £1.97.

When fares for single journeys are compared, London comes second to Copenhagen as the most expensive city. But weekly commuters pay much less than their London counterparts because the Copenhagen transport authorities give larger discounts to regular travellers.

The ALA's survey is based on the cheapest available way of making 10 commuter journeys of 6 miles or 10km. In London that counts as a three-zone journey.

Currency conversions were carried out after the recent sharp devaluation of sterling, which should have benefited London in the comparison. Conversely, London's fares after next January's rise are



Price barrier: a typical week of commuting will cost £16 after the 8.5 per cent increase in January

compared with existing fares in other capitals.

The main reason for the large gap between London's fares and those in other EC capitals is the UK government's policy of requiring passengers not only to cover the running costs of the transport system, but to make a

contribution towards investment in its renewal and expansion.

Other countries tend to keep fares low through government subsidies funded by local employers, local authorities, national government or a combination of the three.

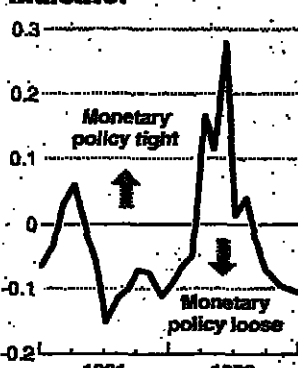
The ALA said: "Increasing

fares all the time does nothing to encourage people to swap their cars for public transport."

It added: "Fares policy should be part of a strategic transport policy for London which encourages people to use public transport. Above-inflation increase each year will not do this."

# LBS questions Tory inflation goal

Monetary Policy Indicator



Source: London Business School

UK MONETARY policy is now too loose to enable the chancellor to achieve his long-term goal of 2 per cent inflation and risks building up inflation, according to a monetary policy indicator constructed by the London Business School, Edward Balls writes.

A rise in inflation has already been factored into the LBS forecasts for the economy. In its latest economic outlook, it predicts that retail price inflation will fall to 3.3 per cent next year, then rise to 4.9 per cent in 1994 and 5.3 per cent in 1995.

The LBS monetary policy indicator is based on a

weighted average of a number of financial indicators: the short-term real interest rate, the change in the exchange rate, monetary aggregates and the public-sector borrowing requirement. LBS economists have examined the relationship between those indicators and inflation over the past decade to see if policy is now consistent with the chancellor's inflation target.

The indicator suggests that monetary policy was much tighter than was needed to bring inflation down towards the end of last year and into this year. Interest rates were still in double figures but inflation was falling fast, so raising the real interest rate.

Sterling's recent depreciation and the fall of 2 percentage points in interest rates since sterling left the ERM mean that policy is now too loose.

Present policies are consistent with a long-term inflation rate of about 7 per cent, according to the LBS research.

"Achieving the 4 per cent goal would involve a considerable tightening of monetary policy," the report says. *London Business School Economic Outlook 17.1*. Gower Publishing, Gower House, Croft Road, Aldershot, Hants GU11 3HR. 170.

# Shaken sales staff slip up on job

By Michael Cassell, Business Correspondent

THE IMAGE of hard-pressed salespeople fighting to fend off the recession by working all hours and driving "unbeatable" bargains is comprehensively debunked by research published today.

Hard times are just as likely to mean that sales people lose confidence, fear increasing rejection by their customers and harbour low expectations. The picture of despondency and self-doubt is painted by Sales and Marketing Solutions, a York-based consultancy that has monitored the activity of sales teams in a dozen companies active across Britain during the recession.

According to the consultancy, instead of clocking up extra mileage in search of a sale, the salesperson is quite likely to stay at home or to fill the day doing anything but closing deals.

"The recession, therefore, becomes self-fulfilling," says Mr Frank Atkinson, senior partner in the consultancy. The company reports that a recent study of one nationwide group showed a sales force only half as active in pursuing deals as it had been in more buoyant periods.

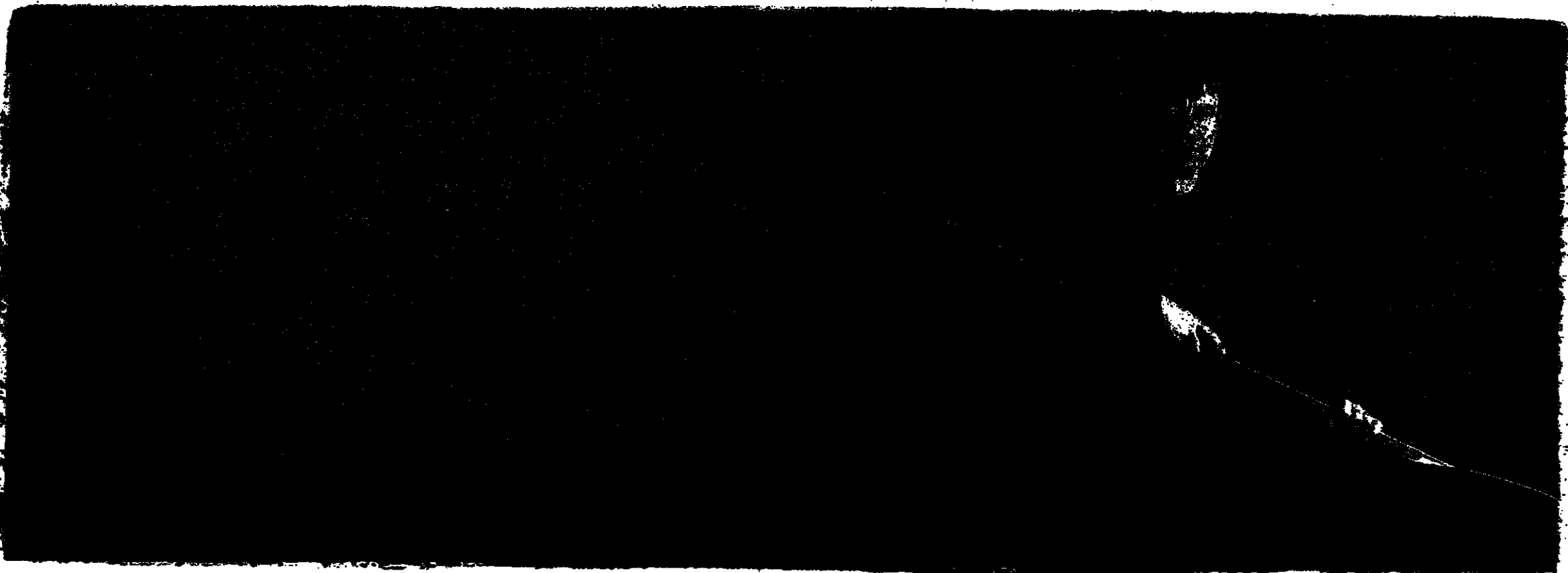
"When times are good you can, to a large extent, get away with trusting your salespeople to bring home the orders, but when times are bad, companies cannot afford such a laissez-faire attitude."

The company's research also suggests that during a recession, product prices might be driven down by those responsible for selling, rather than by canny customers.

According to Mr Atkinson: "The buyer asks if the price can be reduced and the sales person responds by trimming the price rather than defending the company pricing structure."

The report says the failure to negotiate effectively is driving down prices and reducing UK profits unnecessarily.

"During the week I design pumps and mixers that protect rivers and lakes from pollution."



On weekends I get to enjoy my work."

Hjalmar Fries  
ITT FLYGT, STOCKHOLM

Hjalmar Fries has a passion for canoeing and for the past 28 years he's been giving back to his favourite sport as an inventor and designer at ITT Flygt.

ITT Flygt, part of ITT Fluid Technology, is the originator and largest manufacturer of heavy duty submersible pumps and mixers. But it's just one of eight diverse businesses that make

up today's ITT Corporation. This, along with our investment in Alcatel Alsthom, makes us a multinational, U.S. \$206 billion enterprise employing 110,000 people around the world. In fact, one out of three ITT employees lives and works in Europe. And whether it's ITT Automotive, ITT Defense and Electronics, or ITT World Directories, these companies and all of our businesses

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## NEWS: UK



Sir Richard Body (Holland with Boston): "I would rather slit my throat than vote for Maastricht... If we had an election this winter, the Conservatives would be ousted."



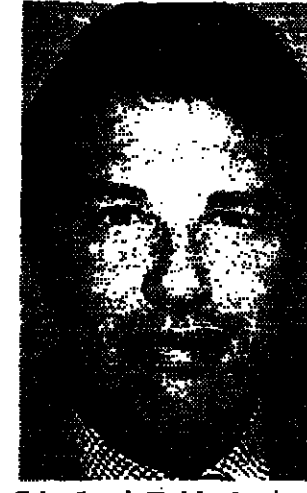
William Cash (Stafford): "I think it would be foolish in the extreme to call our bluff, by saying that there would be an election. Who gains from an election but Labour?"



Sir George Gardiner (Reigate): "The prime minister's aides must stop bullying the Tory party with threats of extinction. Our duty is to vote as we see the country's interests."



Nicholas Budgen (Wolverhampton South West): "I don't think he can make it an election issue. He doesn't have the right to call an election. He can ask the Queen."



Toby Jessel (Twickenham): "I think the whips will ask to try to scare people into imagining that if Maastricht is defeated it will lead to an election. I think that is bluff."



Sir Teddy Taylor (Southend East): "There is no way the government could possibly fall on this. It is purely a device to try and strike fear into the hearts of potential rebels."



Michael Spicer (Worcestershire South): "Every day that has gone by an additional person has committed themselves in public to voting against the bill."

## Lautro orders life policy inquiry

LAURENTIAN Life, the life assurance company, confirmed yesterday that Lautro, the industry regulator, had started an inquiry into the possible sale of tens of thousands of unsuitable policies, Scheherazade Daneshkhu writes.

The move follows a preliminary review of several hundred policies by Lautro, which raised doubts that best advice had been given to customers. Unless the review of a further 3,000 policies - by Tillinghurst, the consulting actuary - contradicts the Lautro findings, Laurentian Life will be asked to review all policies sold by its tied agents.

Lautro, which earlier this year summoned the chairman of Laurentian, Lord Marsh - a former cabinet minister - over the issue, is particularly concerned about the sale of policies by tied agents who had not gathered sufficient information about clients.

Lautro fears that Laurentian's salesmen have sold long-term savings plans - which pay rich commission to them - to young people with no dependants and that individuals have been transferred out of occupational pension schemes to personal pensions with no good reason.

Mr Paul Stott, head of communications at Laurentian, denied reports that any compensation to its clients would be "financially disastrous".

## DTI wins injunction against Channel 4

CHANNEL 4 was prevented from showing a programme on the City last night after the Department of Trade and Industry was granted an injunction.

The DTI moved to prevent the second programme in the series Greed and Glory disclosing details of the unpublished investigation into the Guinness affair. Channel 4 said last night it would try to get the injunction lifted and show the programme next Sunday.

## KPMG survey

MANY successful medium-sized companies are investing almost blindly in cross-border business activities, according to a survey by consultants KPMG. Many seemed unaware of the complexities and pitfalls of moving into different economies and cultures.

## Rebels face tough test of resolve

MR JOHN MAJOR'S attendance at the service to mark the 50th anniversary of the battle of El Alamein neatly coincided with the launching of the prime minister's political counter-attack against the band of Tory Euro-sceptic rebels.

Before there is any question of reaching the hand-to-hand combat that is likely to characterise the line-by-line scrutiny of the Maastricht Bill, however, Mr Major has first to win his vote in the paving debate in the Commons on November 4. The skirmishing in the run-up to that debate resembles not so much a battle as a game of poker - albeit with high and ever-rising stakes.

The Euro-rebels, faced with the threat that the prime minister would call an election if the government were defeated in the paving debate, seem to be concluding that their scepticism should not be confined to Europe.

In a catalogue of issues from the continued employment of

Mr David Mellor to the prospective unemployment of some 30,000 miners, the government has begun by taking a determined line and ended by offering concessions to the view from the back benches.

On the economy, the shift in emphasis from the battle against inflation to the strategy for growth has led the government to line up more closely with - some would say behind - its MPs.

So on past performance, the rebels may feel justified in dismissing as a bluff the prospect of an election if they play a winning hand and delay the Maastricht bill.

There has even been a whiff of concession already on timing. Deciding to schedule the statement on public spending and a related economic debate between the paving debate and the start of the detailed discussion of the bill itself is an attempt by ministers to win over Tory backbenchers concerned about the apparent irrelevance of the Commons

debating Maastricht instead of paying attention to the economy.

Having won that concession even before last Thursday evening's rebellious meeting, Tory Euro-sceptics might also ponder how far an election is an ultimatum that Mr Major could deliver even if he himself is determined to carry it out.

Over the past few days, Mr Major has underlined that the policy on Maastricht, to press ahead with the debate and with the bill, was agreed by all the cabinet on Thursday and comes not from the prime minister alone but from the government collectively.

But coded messages in ministerial speeches at the Tory party conference earlier this month suggested that not all ministers feel as committed to the agreement as Mr Major does, having put his signature to it. If the government were defeated in the debate next week, there could be ministers who find "opportunities" in the new situation, much as oppor-

tunities were found by some in sterling's precipitate exit from the exchange rate mechanism.

While Mr Major might feel that the government's authority had been so undermined by a successful revolt on Europe that it should resign, he would have to carry his cabinet colleagues with him. The powerful executive of the 1992 committee of Tory backbenchers would also doubtless have views on any decision to call an election unless the government had actually lost a motion of confidence.

The question of bluff is not all on one side. As previous Tory revolts have shown, rebels find it easier to talk up their concern than to vote against the government. Even if they are reasonably confident that success would not lead to an election, they cannot be anything like as certain that it would not lead to a contest for the leadership of the party.

Senior ministers point out that Mr Major reflects the mood of the party on Europe

more closely than any of his cabinet colleagues. Any successor in the short term would be more likely to come from the Euro-enthusiast wing of the party.

The danger, of which Mr Douglas Hurd warned at the Tory conference, of the party testing itself apart over the issue, also cannot be discounted if a more divisive leader took over from Mr Major. If that happened, an early election would loom. The adoption of the social chapter of the Maastricht agreement by an incoming Labour government is not part of the Tory rebels' game plan.

In the lead-up to the debate, Tory whips will be using their traditional mixture of threats and promises to finesse a government victory, while ministers also have some room for manoeuvre over the precise terms of the motion. Not all the cards have been dealt and there is still all to play for.

Alison Smith

## Labour's tactics kept under wraps

By Alison Smith

MYSTERY and suspense are clearly Labour's tactics as the Commons nears confrontation on the Maastricht treaty - whatever their tactics at the end of that debate to pave the way for the return of the Maastricht Bill.

The Opposition decided last week that they would not give government whips the comfort of being able to work on the basis of a known Labour stance.

That position was complicated slightly at the weekend with speculation that the government might turn the issue into a matter of confidence. Mr John Prescott, shadow transport secretary, said yesterday that if the motion was one of confidence, it would be Labour's job to vote against it.

The shadow cabinet will discuss tactics at its regular meeting on Wednesday, but the

motion for the debate may not be available then. Labour has a delicate task of balancing its views on Europe with its job in the House.

One option is that Labour could put down an amendment that simply regretted that the government was proceeding with the Maastricht Bill before Denmark's position on ratification was clear.

Such an amendment might appeal to some Tory Euro-sceptics, but it might also make Labour more vulnerable to Tory charges of reneging on its commitment to Europe.

Alternatively, it could put down an amendment expressing its broadly pro-European stance and deploring once again the absence of the social chapter from the version of the treaty agreed by the UK. That would deny it any prospect of Tory rebel support on that particular vote, but would put its position clearly on the record.

## Parcelforce sale is studied

By Alison Smith

MINISTERS are examining aspects of European Community competition policy as part of work on privatising Parcelforce, the loss-making parcel delivery arm of the Post Office.

Mr Michael Heseltine, trade and industry secretary, said in July that the government intended to privatise the organisation as soon as possible, but ministers are conscious that Parcelforce stands to lose its exemption from value added tax once it ceases to be part of the Post Office.

The issue has been high-

lighted by Mr Peter Hain, Labour MP for Neath, who has written to Mr Heseltine, demanding a statement to the House of Commons on how the government intends to deal with the loss of VAT exempt status.

He says that would mean Parcelforce customers facing rises of at least 17.5 per cent, and argues that losing VAT exemption would jeopardise the profitability of the business, making it a less attractive proposition for potential purchasers.

Parcelforce has the leading 34 per cent share of ordinary

parcel deliveries but only 2 per cent of the premium "next-day" market.

Its turnover for 1991-92 was £508m and it sustained a loss of £24m.

Mr Heseltine indicated in the summer that the government would make available financial support so that management and employees could make a bid.

Ministers say that the question is not as straightforward as Mr Hain suggests, and that it may be possible to bring the organisation into the private sector without simply losing the VAT exemption.

## Post Office privatisation 'feasible'

By Roland Rudd

PRIVATISATION of the Post Office is feasible, in spite of earlier fears that it might jeopardise the nationwide delivery network, Kleinwort Benson, the government's adviser on the future of the service, has told ministers.

In a progress report for the Department of Trade and Industry, the merchant bank says a regulated privatised Post Office could continue to deliver letters to every address in the UK without charging more in rural areas.

It describes Royal Mail, the

Post Office's letters division, which last year made pre-tax profits of £266m, as a classic candidate for a flotation.

The less profitable Post Office Counters, which handles social security payments, would be harder to sell separately. Kleinwort believes that in spite of last year's £28m pre-tax profits, the division's network is fundamentally uncommercial. One option is to float it off with Royal Mail.

While the study is only a first draft and contains no recommendations, it is likely to strengthen the case for privatising the Post Office. How-

ever, no decision will be taken until the government receives a further report costing the various options.

Mr Michael Heseltine, trade and industry secretary, has emphasised the government's commitment to a nationwide delivery service within a uniform and affordable structure of prices. He also wants to encourage competition.

Kleinwort's report says those objectives are neither mutually exclusive nor threatened by privatising the Post Office.

Competition could be encouraged by reducing the Royal Mail's monopoly on letters

costing less than £1 to a level closer to a first-class stamp and by opening up its postal network to private couriers.

TNT, the Australian delivery company, and DHL, the international courier, might seek to carry mail and then, in rural areas, be able to pay the Post Office network to deliver their letters on the final leg through Royal Mail.

The concept is similar to interconnection in the telecommunications industry, where long-distance telephone companies, such as Mercury, can pay BT to route the final part of a call.

### 9 per cent TREASURY LOAN, 1992-1996

The Bank of England announces that Her Majesty's Treasury intends to redeem at par all of 9 per cent Treasury Loan, 1992-1996 on 28th January 1993, for cash. From that date no further interest will accrue. Formal notice of redemption by Her Majesty's Treasury will appear in the London Gazette on 27th October 1992.

Formal notice of redemption will be issued to stockholders by the Registrars in due course.

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LONDON

THIS NOTICE DOES NOT CONSTITUTE AN OFFER FOR SALE AND THE STOCK DESCRIBED BELOW IS NOT AVAILABLE FOR PURCHASE DIRECT FROM THE BANK OF ENGLAND.

ISSUE OF £1,000,000,000

7 1/4 per cent TREASURY STOCK, 1998

#### SCHEDULE OF PAYMENTS:

On issue	£25.00 per cent
On 28th January 1993	£74.50 per cent

The whole of the above Stock has been issued to the Bank of England on 23rd October 1992 at a price of £99.50 per cent.

The Stock will be repaid at par on 30th March 1998.

Interest will be payable half-yearly on 30th March and 30th September. The first interest payment will be made on 30th March 1993 at the rate of £1.6958 per £100 of the Stock.

Application has been made to the Council of The International Stock Exchange for the Stock to be admitted to the Official List; dealings in the Stock are expected to commence on Monday, 26th October 1992.

Copies of the notice in lieu of prospectus may be obtained by post from the Bank of England, New Issues, Southgate House, Southgate Street, Gloucester, GL1 1UW; at the Central Gifts Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R 8EU or at any of the Branches or Agencies of the Bank of England; at the Bank of Ireland, Moyné Buildings, 1st Floor, 20 Callender Street, Belfast, BT1 5BN; or at any office of The International Stock Exchange in the United Kingdom.

BANK OF ENGLAND  
LONDON

23rd October 1992

### FT CONFERENCES

#### FINANCIAL REPORTING IN THE UK London, 26 November

The Accounting Standards Board's proposals for the treatment of off-balance sheet finance and capital instruments, mergers and acquisitions, goodwill, the operating and financial review and the profit and loss account will be reviewed by Mr Andrew Lennard and Mr Allan Cook from the Accounting Standards Board, Mr P Raymond Hinton of Arthur Andersen, Mr Graham Stacy of Price Waterhouse and Mr Nigel Stapleton, Chairman of the Technical Committee, 100 Group of Finance Directors.

#### MANAGING FINANCIAL RISKS London, 30 November & 1 December

The workshop is an intensive, practical course aimed at those who wish to understand the principles and practices of financial risk management. It combines comprehensive technical reference material with an interactive format, case studies and worked examples.

#### VENTURE FORUM EUROPE '92 London, 2-4 December

Co-sponsored by the Financial Times and Venture Economics, the Forum brings together an expert speaker panel to review the opportunities for venture capitalists in a rapidly changing European environment. Forum sessions will focus on performance measurement, the need for investor relations in venture capital, direct investment by institutions, exit strategies and succession problems in European owner-managed businesses.

#### PETROCHEMICALS INDUSTRY STRATEGIES FOR SURVIVAL London, 8 & 9 December

This year's conference will focus on restructuring and rationalisation, consider the challenges of making operations more competitive and discuss the role of mergers, acquisitions and strategic alliances. Speakers taking part include: Mr Ronnie Hampel, Chief Operating Officer, Imperial Chemical Industries; Mr Peter Kwint, Vice President - European Petrochemical Division, Shell International Chemical Company; Mr Stephen Pettit, Chief Executive Petrochemicals Division, BP Chemicals and Dr Italo Trapasso, Chairman and CEO, Montecatini.

#### WORLD PULP AND PAPER London, 14 & 15 December

The conference arranged by the Financial Times in association with the Confederation of European Paper Industries will bring together a distinguished panel of international industry leaders to share their views on the long-term prospects for the industry and to assess how corporate strategies are changing in a more complex and competitive environment. New horizons and new opportunities opening up for the future will also be assessed. Speakers include Dr Bo Berggren of STORA, Mr Alain Soulas of Arjo Wiggins Appleton, Mr Erling S Lorentzen of Aracruz Celulose, Mr Dick Eykel of N.V. Royal KNP, Professor Eduard Aldm of the All-Russian Pulp and Paper Research Institute and Mr H C Bowen Smith of Dillon, Read & Co.

All enquiries should be addressed to: Financial Times Conference Organisation, 102-108 Clerkenwell Road, London EC1M 5SA. Tel: 071-251 9321 (24-hr answering service) Telex: 27347 FTCONF G, Fax: 071-251 4886.

## Sex bias found in work appraisals

By Lisa Wood,  
Labour Staff

POORLY designed performance appraisals can lead to sexual discrimination in pay and promotion, according to a report funded by the Equal Opportunities Commission.

The report, by the Institute of Manpower Studies, examined merit pay and appraisal systems in a local authority, a finance company, a manufacturing company and a caterer.

Some of the schemes more than others unintentionally discriminated against women. The IMS recommended that companies regularly monitor the allocation of merit pay increases by sex, ethnic group, job level and length of service.

In the finance company, the report said, male managers valued attributes such as dynamism, assertiveness, motivation and ambition among the qualities they sought in subordinates. Female managers val-

ued flexibility, perceptiveness and honesty. The report said such perceptions might influence the opportunities open to women at a company with a male-dominated management.

Women, the report said, tended to underestimate their skill levels. That might mean they lost out in appraisals.

Findings also suggested that men at similar job levels and appraisal ratings as women were more likely to be offered training and promotion.

Commenting more generally, the report said some schemes set performance targets that were subjective and so open to discretionary judgment by managers. Qualitative measures - such as awareness of client needs - were more open to subjective judgments than quantitative measures such as sales targets.

Merit Pay, Performance Appraisal and Attitudes, IMS, University of Sussex, Falmer, Brighton BN1 9RF. £24.

### U.K. WATER INDUSTRY

The FT proposes to publish this survey on December 1 1992. The 10 water companies of England and Wales are committed to a £28 billion investment programme. To discover what the FT is planning and how to reach our international audience of senior decision makers, influential executives and government officials contact:

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### FT SURVEYS

## WHY THE CHAIRMAN NEVER FORGETS THE DAY HE REACHED HIS FIRST SALES TARGET.

JAMES WARDE

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Lautro  
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inquiryUnionist  
leaders set  
to withdraw  
from talks

By Our Belfast Correspondent

ULSTER's political leaders and British and Irish ministers embark on another round of bilateral discussions this week, knowing that both Unionist delegations will be withdrawing from the talks before the November 16 meeting of the Anglo-Irish conference.

The Rev Ian Paisley, Democratic Unionist leader, has already said his delegation will be withdrawing in the previous week as the secretary of the conference will be back in operation.

In Belfast at the week-end and Mr James Molyneux, the Ulster Unionist leader, told his party's annual conference that he also regarded the November 16 meeting as the deadline.

Mr Molyneux said: "As far back as three years ago, both governments agreed to suspend the Anglo-Irish conference and secretariat for the duration of the talks. It was clearly accepted that if and when the two governments terminate the suspension, they thereby terminate the talks."

Most observers feel there is little chance of Unionists and nationalists reaching agreement in the time left.

The three strands of the talks have been taking place alongside one another. There has been wide-ranging discussion on possible structures for devolved government in Northern Ireland, new north-south institutions and links between London and Dublin, but there is little sign of agreement on the horizon.

Major faces call from  
coal probe committee

By David Owen

MR JOHN MAJOR, the prime minister, may be summoned to appear before the all-party trade and industry select committee during its investigation into the coal industry and UK energy policy.

This follows weekend reports - later denied by Downing Street - that Mr Major agreed to intervene personally to obstruct a European Community initiative to block Colombian coal imports on anti-dumping grounds during a South American visit this summer.

Downing Street said yesterday that the possibility of an anti-dumping action had not been discussed and that this would be a matter for the European Commission. However, it acknowledged that energy had been on the agenda during the visit, which included a trip to a BP oil rig.

The committee - under the chairmanship of Mr Richard

Caborn, the Labour MP - is set to begin its inquiry tomorrow by questioning Mr Michael Heseltine, trade and industry secretary.

Mr Stan Orme, a former Labour energy spokesman who sits on the committee, said that he planned to question Mr Heseltine on the Colombian allegations. He would also ask Mr Heseltine whether it was true that the government was "deliberately encouraging" miners to take the redundancy terms that were on offer.

Mr Caborn said the committee's principal aims in tomorrow's questioning would be twofold: first, to determine the reasoning behind the original decision to lay off 31,000 miners, and second, to obtain an assurance that the committee would not be refused access to information given to the government during the course of its own inquiry. "We don't want the government saying in January, 'If you had seen all this information, you would

have come to a different conclusion," Mr Caborn said.

He confirmed the committee would be prepared to hear commercially confidential evidence in camera. The committee is aiming to complete its inquiry by mid-December so that its report can be prepared over the Christmas recess.

The total UK coal market is estimated at between 80m and 85m tonnes this year, with 20m tonnes of that coal imported.

The market will shrink by about 25m tonnes next year, when the power generators are expected to sign contracts with British Coal for only 40m tonnes, compared with this year's 65m tonnes. Imports, however, are expected to continue to increase, by between about 10 per cent and 15 per cent a year, although growth in the medium term will be restricted by limits on the handling capacity of UK ports. Imports from Colombia may double to about 4m tonnes over the next few years.

## MPs to review power sell-off

By David Owen

A SECOND influential Commons select committee is to scrutinise aspects of the power generating industry in England and Wales while the government is conducting its review of coal mining and Britain's long-term energy requirements.

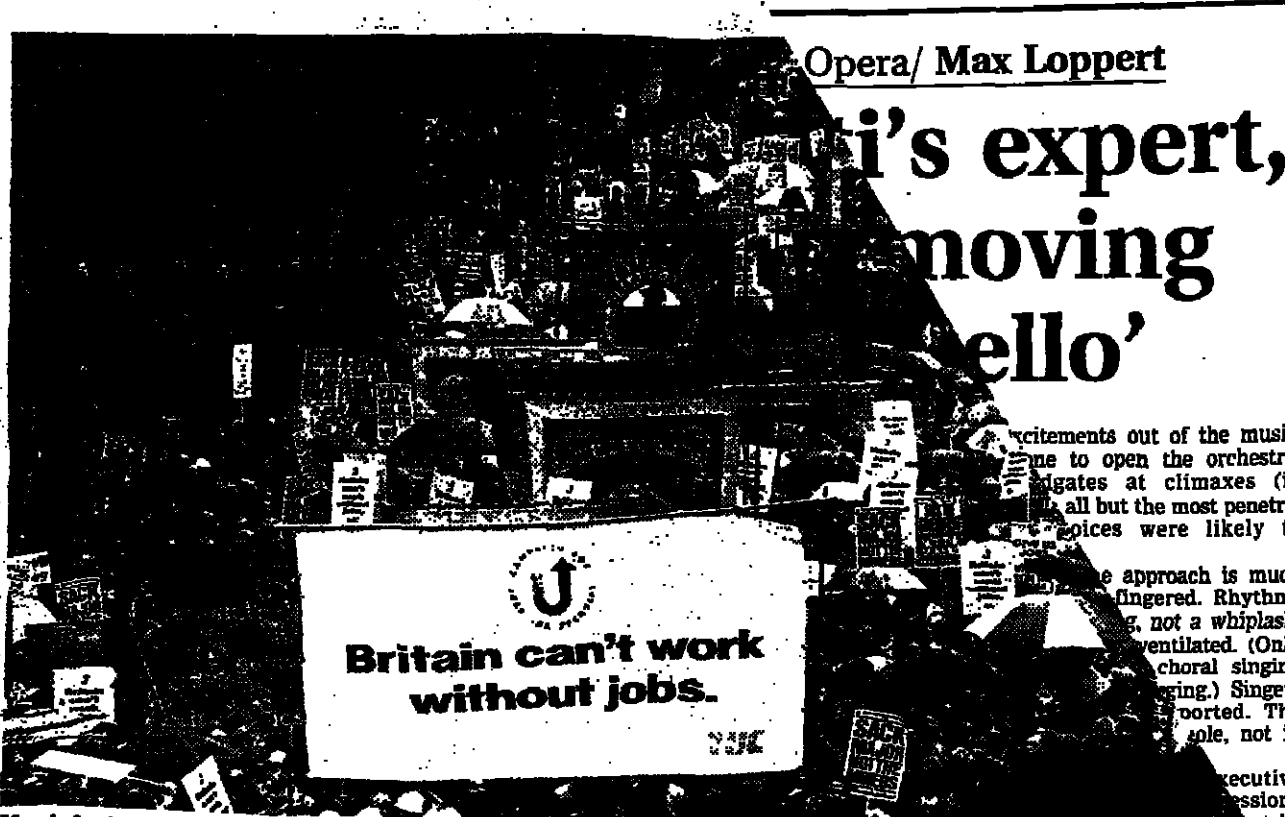
The public accounts committee (PAC) will next month start to examine the privatisation of the electricity generators PowerGen and National Power. Sir Peter Gregson, permanent secretary at the

Department of Trade and Industry, will be among witnesses called by the body, which is chaired by Mr Robert Sheldon, the former Labour Treasury minister.

Although the principal focus of the committee's inquiries will be to assess whether the government succeeded in maximising its proceeds from the sale, the industry's future competitiveness in the light of the growing practice among electricity distributors of building their own gas-fired power stations is also expected to be scrutinised.

Professor Stephen Littlechild, the electricity industry regulator, is meanwhile bringing forward his review of the way electricity distribution companies buy their power supplies.

The PAC inquiry follows a favourable report on the sale of the generators by the National Audit Office, the public-spending watchdog, earlier this year. The NAO praised the now defunct department of energy's handling of the offer, saying it had introduced a number of innovations.



March for jobs: an estimated 200,000 protesters march through central London in protest at the plan to close 31 pits

## 200,000 march against pit closures

By Andrew Adonis

An estimated 200,000 people marched through London in driving rain yesterday to hear speakers from across the political spectrum call for a national crusade to halt threatened pit closures.

Central London was jammed for several hours as the public marched to Hyde Park alongside miners, politicians and trade unionists to show their support for the miners.

In a seething personal attack, Mr John Smith, Labour leader, told the rally that Mr John Major should "protect the national interest and start to be a prime minister". He urged him to "go down the pits you want to shut and look

at the investment... which would be written off if this decision goes ahead. Speak to the miners whose skills are unique and irreplaceable, and above all visit their families and think of what will happen to them if your plans go ahead," he said, to loud cheers.

The rally was an effort by the Trade Union Congress to sustain popular momentum against the government's attempt last week to close more than half Britain's pits, which it was forced to shelve pending a three-month review to stave off a near certain defeat in the House of Commons.

Mr Arthur Scargill, president of the National Union of

Mineworkers, appealed to the country not to "leave us isolated in this struggle". He urged the TUC to "take on board" the NUM's call for "a national day of action" against the closures.

"I want demonstrations like this in every town and city throughout Britain until this government changes its policy and withdraws its threat to close pits and sack miners."

Neither Mr Smith nor Mr Norman Willis, TUC general secretary, made any reference to the possibility of such action. Mr Smith simply pledged Labour to "fight for Britain's interests".

Mr Willis stressed the necessity of sustaining cross-party opposition to the closures.

"We must form new alliances. We either learn to live together as sisters and brothers, or we shall perish together as fools," he said.

Mr Paddy Ashdown, Liberal Democrat leader, condemned the government's "callous indifference" to the miners, and described as the "real heroes and heroines" of the last week those who marched and spoke up for the miners.

The rally was good humoured and speeches were interspersed by a brass band and choir. Most of the banners on display were from the NUM while the Union of Democratic Mineworkers, which broke away from the NUM during the 1984 miners' strike, was barely in evidence.

Council tax estimates  
soar and may exceed £600By Alison Smith  
and Ralph Atkins

ESTIMATES FOR the average council tax bill for a home in the middle property band have soared and could exceed £600 when the tax is introduced next April, senior Whitehall officials believe.

The figure is higher than ministers were suggesting even in private earlier this year, and is above the £400 average figure produced by the department of the environment last year.

The new, one-per-household tax, which will replace the poll tax on individuals, is understood to have suffered in the current fierce contest as public spending on local government is cut in favour of capital projects to boost jobs.

Environment ministers are keen to play down the importance of notional average figures for the council tax, but

the £600-plus figure is a sign that bills are set to rise faster than expected in areas such as London and the south-east where house prices were above national averages when valuations were carried out.

Mr Michael Howard, environment secretary, is said to have asked Mr John Major, prime minister, to protect spending to support the tax, but was told Mr Major would not intervene.

Ministers know that the new tax will bring protests from those better off under the poll tax. But they are convinced that the structure of the tax - which provides discounts to single people, and exemptions for those on very low incomes - makes it likely to be more popular than poll tax.

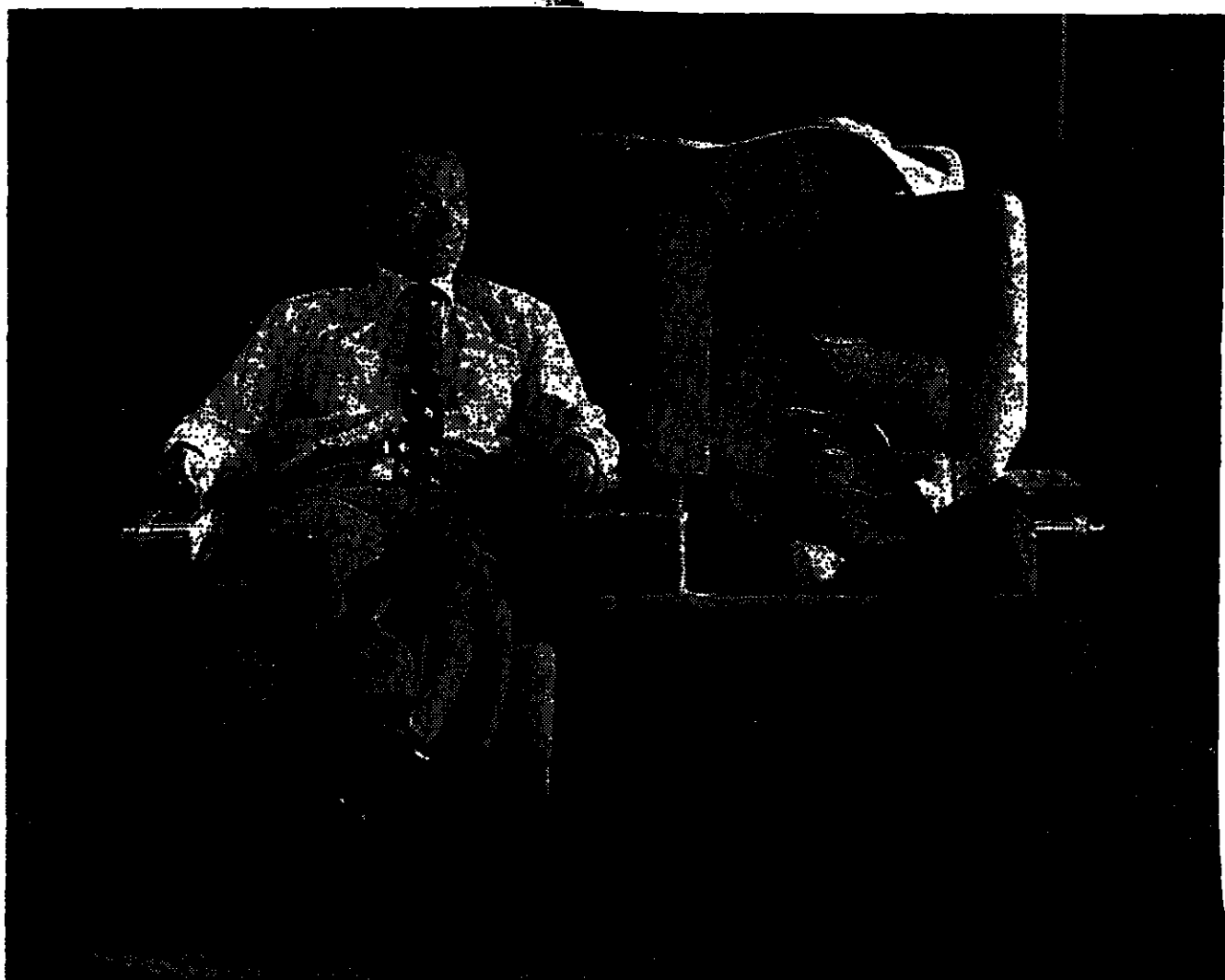
Mr Howard hinted yesterday that support for the new tax had become a victim of the tough spending round discussions. Speaking on BBC television, Mr Howard said that

whether to give his department the £2bn it has been estimated it would need to soften the impact of the new local tax system was one of the "very difficult decisions" faced by cabinet ministers on the public spending committee.

He wanted to ensure that the government made "the right judgment, the right balance" about the council tax and projects such as London's Jubilee Line extension.

Mr John MacGregor, transport secretary, has reinforced his efforts to secure the extension, but the Treasury is adamant that it should not get priority.

Mr Michael Portillo, Treasury chief secretary, is to hold an informal meeting today with senior members of the Tory backbench finance committee and with Tory MPs on the all-party Treasury committee, to discuss public spending in advance of next week's autumn statement.



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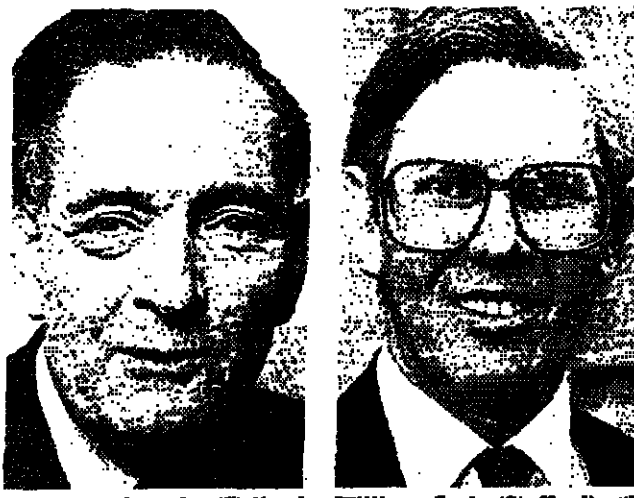
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## MANAGEMENT



Sir Richard Body (Holland with Boston): "I would rather slit my throat than vote for Maastricht... If we had an election this winter, the Conservatives would be ousted."



William Cash (Stafford): "I think it would be foolish in the extreme to call our bluff, by saying that there would be an election. Who gains from an election but Labour?"

## Rebels face t

MR JOHN MAJOR'S attendance at the service to mark the 50th anniversary of the battle of El Alamein neatly coincided with the launching of the prime minister's political counter-attack against the band of Tory Euro-sceptic rebels.

Before there is any question of reaching the hand-to-hand combat that is likely to characterise the line-by-line scrutiny of the Maastricht Bill, however, Mr Major has first to win his vote in the paving debate in the Commons on November 4. The skirmish, however, is run-up to a challenge from the opposition, because it is not so much the bill itself, but the government's attitude to it, that is the real issue. The bill is becoming a condition of the threat in internationally competitive markets.

The go authors also insist that TQ, in the

While many companies are now starting to address broader issues than profit and wider audiences than shareholders, few have been able to back up the rhetoric with much statistical rigour.

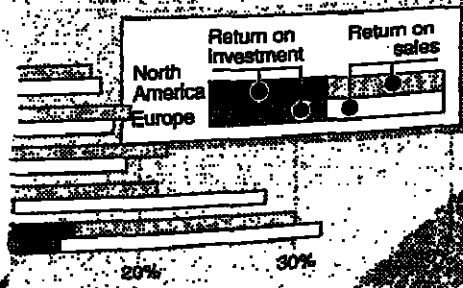
Tentative steps in that direction are being taken as part of a three-year research programme by Britain's Royal Society of Arts into "Tomorrow's Company: the role of business in a changing world".

Making the case for change at the RSA's latest seminar on the subject, Roger Stubbs, deputy managing director of Mori, the market

finds problems with Total Quality schemes

## y customers st come first

linked to rates of return



sophy, has been the prime attention of the service to mark the 50th anniversary of the battle of El Alamein neatly coincided with the launching of the prime minister's political counter-attack against the band of Tory Euro-sceptic rebels.

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"gut commitment" to quality. Programmes which are imposed from above and bolted on to existing procedures do not work because they are ineffective and can even "inoculate" organisations against real change, say the authors. "Managers and staff can emerge after two to three years of time-consuming work, familiar with all the concepts and jargon of quality, yet without a real improvement in performance. People will then become cynical. Any later attempt to organise a true quality effort will be made more difficult."

Senior management needs to take responsibility for quality, rather than delegating it. "They should begin by understanding the TQ principles, assessing where their organisation is and where it wants to be and then deciding what place TQ can, or should, have in their philosophy and strategy."

Just as important, the route taken

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Rank Xerox, winner of this year's European Quality Award, trains all its 28,000 employees in Total Quality

by individual companies to improve quality should be "home grown" and internally developed. "Companies need to be objective but also to value the things they inherit from the past which may differentiate them in the future. For this self-assessment to be effective, a company needs to benchmark its performance against worldwide best practice, as Xerox and Motorola did in the US, and to listen carefully to customers and employees."

The report concludes that, for most organisations, the ISO9000 and BS5750 standards are not the best

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way to launch a Total Quality programme. Although the authors accept that the quality systems which they codify are important, they suggest that starting a TQ programme with them is "beginning a process of change with the horse before the horse".

As part of the year-long research programme, the Ashridge researchers completed six case studies. These covered: Grundfos, the Danish group which holds half of the world market in domestic water pumps; Nissan Motors' Sunderland

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manufacturing plant; Club Med, the French holiday and leisure company; Ciba-Geigy's Italian marketing, sales and distribution group; the UK-based parcels operations of Federal Express; and ICL Product Distribution, based in Stevenage, Hertfordshire, which is responsible for the storage and distribution of the computer group's hardware, software and literature.

The authors note that "few areas of business activity suffer from as much hype, exaggeration and confusion as Total Quality". But while it would have been easy to produce a damning report "pointing to the gap between aspiration and reality in many companies with TQ initiatives", they argue this would have been a mistake, for an understanding of how TQ can be best tackled is still developing.

The authors argue that there is "a rich vein of experience" in companies which have worked with TQ, from which others can learn how better to implement TQ principles and improve competitive position.

Making Quality Work - Lessons from Europe's Leading Companies, £100 from EIU 40 Duke Street, London W1A 1DW.

of Piper Trust, showed.

A sample of contributors to investment funds such as pensions - drawn from middle managers in industry - knew nothing about how their money was currently invested, nor the policies adopted by the institutions, and did not look on themselves as shareholders.

This suggests that change in the short term is more likely to be brought about by their own realisation of a need for more sophisticated measures than by any direct shareholder action.

Andrew Jack

## Putting a value on people in a changing world

research company, unveiled a poll showing that 42 per cent of City analysts and 80 per cent of the public believe British companies do not pay enough attention to their treatment of the environment.

They rank environmental protection, employee welfare and community service as companies' principal social responsibilities. Anti-pollution measures and a safe workplace were also important.

These are not idle, irrelevant

cerns for companies. The poll showed that 38 per cent of fund managers expected private investors' influence over how their funds are invested to increase in the next few years. That would seem to suggest that shareholders may increasingly take action against companies adopting practices with which they do not agree.

How companies can measure and improve their performance to a wider group of stakeholders

remains extremely difficult. Most discussion at the RSA seminar concentrated on valuing people.

Alan Benjamin, chairman of Alphameric, argued that every company's key asset is people, and yet they are not valued under existing performance measures and are rather simply written off as annual expenditure.

He said renewing "people assets" using continual education and training was essential. Without it,

the "knowledge base" of a company would depreciate.

David Budworth, a consultant, suggested that one approach would be to use what he called an "innovation ratio". This would measure current expenditure not expected to produce a return in the current year, such as money spent on research and development.

The ratio would record the deterioration of intangible assets - the non-physical elements of a company

which generate value, including their employees.

Given that there is considerable controversy about how to value intangible assets, he suggested circumventing the debate by using a measurement of cash flow.

It may be some time before companies need to take these issues too seriously, however. There is considerable progress yet to be made, however, as a second survey presented by Crispin Twiddle, chairman

of Piper Trust, showed.

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## BUILDING CONTRACTS

## Work begins on new jewel house at Tower of London complete motorway



An artist's impression (above) shows the expanded Jewel House

BUILDING WORK will begin next month on the expanded 10m Jewel House project at the Tower of London. The design and construction work is being managed by LEHRER McGOVERN INTERNATIONAL, part of the Bovis Construction Group.

The new Jewel House will open for Easter 1994 and will accommodate over 2,500 visitors per hour - a total of 20,000 visitors a day - whereas the present area was designed in the 1960s for a peak attendance of 5,000 visitors daily.

The new display area will be three times larger than at present and will be spread over the whole of the ground floor of the Duke of Wellington's barracks. The design incorporates a short length of slowly moving floor past the most important jewels.

The main objectives are to provide better viewing facilities, incorporate the highest level of security, allow access for disabled people and eliminate long queues.

LMI has assembled a team of design consultants and other specialists who are working closely with experts from the historic royal palaces.

Mr Ken Percy, who is in charge of the project for LMI, said: "We won this assignment because we were able to demonstrate that we had the skill, experience and depth of resources necessary to handle a very complex and highly sensitive project."

"In total there are over 20 trade contractors involved in the project and at peak we anticipate around 100 people working on the site. Given the sensitive nature of the project, strict security precautions are already in place and will remain in force for the duration of the work."

Haymills (Contractors) has been awarded a restoration, conversion and new build contract worth £2m in connection with the listed buildings on the Waddesdon estate, near Aylesbury, belonging to Lord Rothschild.

The contract involves the extensive restoration and conversion of existing Victorian dairy buildings and a buttery, re-using where possible the original materials such as existing roof timbers, roof

TARMAC CONSTRUCTION is to start work next month on a £26m scheme to build the final section of the M3 motorway in Hampshire. The completion of the London to Southampton motorway is among new contracts, worth more than £35m, won by Tarmac Construction.

The six kilometres of dual three-lane carriageway and nine bridges will provide the missing motorway link between Bar End, Winchester, and Compton to complete the strategic route to the north.

The two-year-long scheme includes three motorway junctions and interchanges at Bar End, Hookley and Shawford, with associated slip roads and four kilometres of side road diversions.

Fifteen major structures are to be built comprising bridges - two across rivers and one over a railway track - culverts and retaining walls.

Among the other contracts, refurbishment and repairs, costing £3.8m, are to be carried out to tower blocks of flats for Birmingham City Council by Contracts Housing Division.

A £1.7m community residential home and workshops for the mentally handicapped is to be constructed at Rowde, near Devizes in Wiltshire, for the charity Cara (Cottage and Rural Enterprises).

Contract Housing's other new orders include a £2m refurbishment of housing at Craigshill in West Lothian for the Livingston Development Corporation.

Glynedebourne project

AMBC group company MATTHEW HALL has been awarded a £25m contract for building services work on the new Glynedebourne Opera House in Sussex. Working through Bovis Construction for Glynedebourne Productions, the company has been appointed to install, commission and test the building's mechanical, electrical, public health and fire systems.

The contract forms part of a major construction programme to provide larger and improved facilities for the opera company.

The architect is Michael Hopkins & Partners and the structural, mechanical and electrical consultant is Ove Arup.

## Fashionable banking

There cannot be many bankers who have experienced as many changes in banking fashions as Sir John Hall, the new chairman of The Nikko Bank (UK), the London commercial bank owned by one of Japan's biggest securities companies.

Sir John, an old Etonian, spent the first half of his career climbing the boardroom ladder at J Henry Schroder Wagg, one of the London acceptance houses.

However, in 1973 he joined Bank of America International. It was the period when the leading US banks were keen to get involved in medium-term Eurocurrency lending and it was thought a new institution which combined merchant banking skills - Kleinwort Benson and Paribas were shareholders - with the balance sheet strength of a big US commercial bank, would be a powerful force.

In the event, US banks quickly learnt how to make medium-term loans and the merchant bank eventually became a wholly-owned subsidiary of Bank of America.

After a short stint with the US parent, Sir John was seconded to run the European branch of the bank, one of a group of consortium banks which specialised in lending money to

Australia trying to interest investors in a closed-end fund which he was working on with his previous employer, boutique merchant bank Chescor, when Rajiv Gandhi was assassinated and the country thrown into chaos yet again.

He moved to Capel to allow himself scope to branch out from fund management and become involved in other areas - interesting foreigners in global depositary receipts and in newly available direct investment opportunities.

Middleton, who comes originally from Melbourne, began working with Australian stockbroker Bain in London in 1977, then joined McCaughan Dyson, taking charge of the Melbourne broker's London office in 1984.

Correction

The correct name of the economics consultancy referred to in an article on Thursday is London Economics (LES) Limited.

London Economics is a completely separate business and is not planning a name change.

## PEOPLE

## Finance moves

■ Gavin Masterton has been appointed general manager and deputy treasurer of BANK OF SCOTLAND. He has been a general manager since 1983.

■ Charles Orme, former senior partner of Orme & Co which was subsequently bought by Jardine Matheson, and Judy Dallas have been appointed stockbrokers at CHRISTOWS in Exeter.

■ Peter Cannon has been appointed finance director of CONNELL and its subsidiaries Connell Residential and Connell Wilson.

■ Pierre Cervasi, formerly deputy md, has been appointed md of CAPITAL HOME LOANS, now owned by Credit Foncier de France. The

previous md, Pierre Dardalhon, has moved to a position within the Société Générale Group in London following Soc Gen's sale of its stake to Credit Foncier.

■ Richard Golding, formerly a director of Kleinwort Benson, is now executive director and head of the private placement group of NOMURA.

■ Peter Moon, formerly investment manager of British Airways Pensions, has been appointed chief investment officer of UNIVERSITIES SUPERANNUATION SCHEME.

■ John Davies, deputy chief executive of LLOYDS BANK, who was due to retire in February 1993, will now not retire until the end of 1994.

## Barclays' forex change

Barclays Bank has reshuffled the top management of its global foreign exchange operation, bringing in Humphrey Percy, previously European managing director for swaps and options, to replace Steve Mazloumian, who had been doing the job for about a year.

Percy, who is just 35, has a different background from his predecessor. Mazloumian was imbued with the traditional Barclays foreign exchange culture, unlike Percy, who decided in the early 1980s, that the emerging futures and options markets were the most exciting place to be.

He acknowledges that "senior management wanted a different approach", and says his principal task is to accelerate the integration of Barclays' 200-strong global foreign exchange team by getting "a more co-ordinated approach".

"If we are watching a particular level of the pound against the dollar for a customer in London, it is important that we should be comfortable passing this on to New York and to Tokyo round the clock," he explains.

There are plans as well to place a greater emphasis on "product development" acknowledging that Barclays has not, for example, been in the forefront of foreign currency option development.

"I want us to be able to deliver foreign currency options on a global basis," he says.

Overall, the bank was rated number three by foreign exchange customers in this year's Euromoney's customer approval survey, behind Citi-



bank, and Chemical which has merged with Manufacturers Hanover.

When Percy left school, which was Winchester, he went straight to Schroders, where he spent six years principally in the foreign exchange division, including trading spot and forward forex.

He then moved, in 1980, to Barclays Merchant Bank, where he began to familiarise himself with the range of off-balance sheet products.

In 1989 he was made European managing director of the global swaps and options group.

He replaces Mazloumian, an experienced foreign exchange hand, who set up the bank's dealing operation in Bahrain in 1978, and moved to Tokyo as chief dealer a year later.

After a spell back in London in the mid 1980s he returned to Tokyo as treasurer in 1987, coming back to London just over a year ago. Mazloumian is now moved to head up the central bank liaison team.

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## £33m orders won by Kyle Stewart

KYLE STEWART has won contracts worth around £33m from Hostmead Developments, Cheltenham and Gloucester Building Society, Equity & Law Investment Managers, the Lord Chancellor's Department, Marks & Spencer, the Property Services Agency and the College of Law.

Work has already started on the 50m design and construction contract for Hostmead Developments for a W.H. Smith Distribution Centre on the Walworth Industrial Estate at Andover, Hampshire. The project comprises a 26,000 sq metre steel frame structure with steel cladding and a 30 high-bay roller shutting doors.

Cheltenham & Gloucester Building Society has awarded Kyle Stewart a contract to construct a two-story office building with surface parking and landscaping at Barnes Wallis Road, Fareham, Hampshire. An adjacent office building will also be refurbished as part of the £5m contract.

The £4m Equity & Law contract is for the construction of four warehouse units with office space totalling 12,500 sq metres on the Slyfield industrial estate at Guildford.

Another contract, worth £5m, from the Lord Chancellor's Department is for the grade 1 listed Bloomsbury County Court in London to be internally reconstructed and refurbished to form the new Central London County Court.

In addition, construction will commence shortly on a new Marks & Spencer store at Weybridge, close to the old Brooklands motor racing track. The £5m contract will create a store offering the full range of Marks & Spencer goods including an extensive food hall, as well as offices and staff accommodation. A large landscaped car park will also be a feature. The store is scheduled to open for Christmas 1993.

100% من الأصول



## Architecture

## A bridge to fame

Colin Amery admires the work of Calatrava

Santiago Calatrava is hardly a household name in England, but he deserves to be much better known as one of the most inventive and influential engineer/architects currently practising in Europe.

He is famous principally for his bridges. He leapt to fame in the UK with an elegant design for the East London River Crossing which was rejected in favour of the unexceptional design that recently opened.

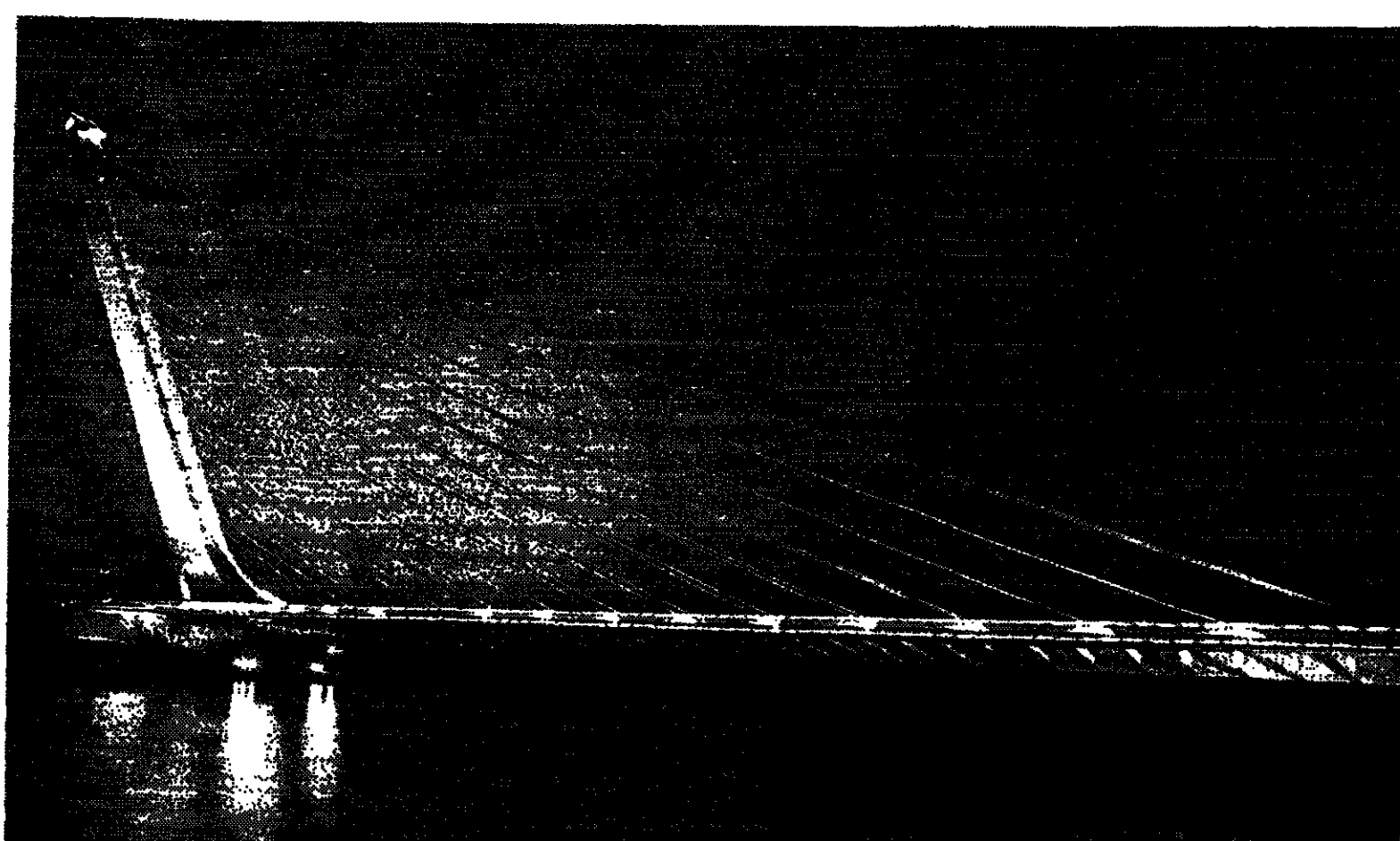
Calatrava was born in 1951 in Valencia where he qualified as an architect. He went on to study engineering at the distinguished Swiss Federal Institute of Technology in Zurich. In 1981 he established his office in Zurich and his work is to be seen in many major European cities.

There is a marvellous opportunity to see almost his entire opus and some of his extraordinary sculptures at a major exhibition that has just opened at the Royal Institute of British Architects, 66, Portland Place, London, W.1, until November 14.

The exhibition has considerable drama and excitement because that is the nature of this man's brave designs. There is something of the single-mindedness of another famous Spanish architect in the work of Calatrava - the Barcelona architect Antoni Gaudí.

I was reminded of that weird display in the crypt of the unfinished church of the Sagrada Família of Gaudí's models and structural experiments for his incredible cathedral. Looking at the almost primitive, whitened bones of Gaudí's experiments was a powerful experience. There is something of that sudden draught of potent originality about this display of Calatrava's work in London.

Calatrava's structures are much more skeletal than Gaudí's. Gaudí put pretence and colourful flesh on his twisted bones. Calatrava's powerful structural exercises are not so



The Alamillo Bridge, Seville: beautiful curves and feats of balance are typical of Santiago Calatrava

organic. He does create beautiful curves and, like all great engineers, sometimes achieves feats of balance that look impossible but work.

I have seen two of his recent works, both of them in Seville. As part of its Expo '92 plans, Seville wanted eight new bridges over the River Guadalquivir. Not all of these were built, but the Alamillo Bridge by Calatrava now stands like a giant, strunged boom spanning 200 metres across the Meandro San Jerónimo.

The bridge is an exercise in counter-balance, the rearing pylon on one side of the bridge balancing the weight of the actual level traffic deck. Thirteen pairs of steel cables act as stays and give the bridge the appearance of some giant ancient stringed instrument.

The other creation of Calatrava at the World Expo '92 in Seville was the pavilion for the Kuwaiti Government. Here he created an angular crown of intersecting curved and pointed ribs around the pavilion. The effect was of a giant opening flower - with an

illusory but almost tangible sense of movement.

The design of this pavilion demonstrated the inspirational power of nature in Calatrava's work. The exhibition demonstrates that he draws beautifully - from the live model and from nature. He is an engineer with an eye.

Calatrava is young to have achieved so much and has clearly benefited from the recent Spanish modernisation and building boom. There is a lovely simple pedestrian bridge he designed for a small town near Barcelona and the very remarkable tower known as the Montjuich Communications Tower, which was built as part of the preparations for the Barcelona Olympic Games.

It stands next door to the enormous indoor sports arena designed by Arata Isozaki and is a somewhat surreal object, looking like a giant tuning fork above the town. I was reminded of a very similar, angled communications tower designed by the British

firm Future Systems for a hypothetical site in London's Hyde Park.

In Zurich his major work is the new Stadelhofen Railway Station - he won the design competition for this in 1983. The station occupies a prominent site next to the Opera House Square, at the foot of the hill park that marks the edge of the old city's fortifications.

Highly sculptural in form the station platforms and canopies curve around the foot of the hill like a bony snake; on the lower level curved concrete structures suggest the inside of some giant rib cage.

Calatrava also collaborated on the new station in Lucerne which replaced the great 19th century station that was burned in 1971. In Lyons the TGV trains now connect with the airport and the dramatic winged station is almost the largest of Calatrava's works. It promises to be extremely elegant - developing, as it does, the familiar Saarinen design for Kennedy Airport's TWA building. One thing comes out very clearly

from the RIBA exhibition: the skill with which Calatrava has developed a unity between architecture and engineering. His buildings and structures are refined works of art. They have a coherence and completeness which is the mark of a highly skilled designer.

It is a joy to sense a great visualiser at work - someone who utilises the third dimension in a sculptural and functional way. There is something Gothic about his creations - because they have a structural drama without any unnecessary high-tech razzamatazz.

The fact that his work is now scattered across Europe in a style free of nationalistic restraints also makes him like a Gothic master. Calatrava is definitely a man with beauty in his bones.

Sponsored by Generalitat Valencia. (There are special guided visits to the exhibition that last 40 minutes that can be booked by telephoning the RIBA Events Office 071-580 5533 extension 4335.)

## Opera/ Max Loppert

## Solti's expert, unmoving 'Otello'

THE most affecting moments came after final curtain. Georg Solti, having conducted the latest Royal Opera *Otello* revival two days after his 80th birthday, was fated onstage, and then presented with tokens of the house's esteem: the post of Music Director Laureate, a silver rose (*Der Rosenkavalier* was the first opera he conducted in the house), the ring from his first Covent Garden *Ring* and the goblet from the 1971 *Tristan* which brought his decade as Music Director to a close.

Two operatic veterans closely associated with Solti and much loved in London, Hans Hotter and Birgit Nilsson, were there as (respectively) ring- and cup-bearer. Nilsson's speaking voice, ringing bronze-toned through the auditorium, provided the evening's great moment of vocal thrill.

What preceded the ceremony was a highly polished, powerfully worked Verdi reading which left me largely unmoved and untouched. Not entirely. Kiri Te Kanawa, a gracious but pale-toned and pallid-spirited heroine for most of the evening (with even an unfamiliar slight flutter of unsteadiness at its start), delivered the Willow Song in a stream of exquisitely moulded sound and in the death scene began to phrase with eloquence and emotional vivacity. Plácido Domingo cried out "Desdemona! Desdemona! Ah, mortal!" in exactly the tones of grandest tragedy - varied in colour and jagged with passion - that earlier one had so much missed in his solidly routinised singing and acting.

These were reminders of the impact the roles of hero and heroine can have: welcome but late, and insufficient.

Solti conducted my first *Otello* (at Covent Garden not quite 25 years ago, with McCracken, Carlyle and Gobbi). Then, he was a hard-driving Veridian, urging fierce

excitements out of the music, prone to open the orchestral floodgates at climaxes (in which all but the most penetrating voices were likely to drown).

Now, the approach is much more light-fingered. Rhythms have a spring, not a whiplash. Textures are ventilated. (Only some ill-tuned choral singing caused any clogging.) Singers are lovingly supported. The work is viewed whole, not in sections.

On this level of executive achievement any expressions of critical reservation must be a confession of personal taste. I missed a haze of string warmth in the love duet, a broadening of the tempo (and a concomitant increase of emotional expansiveness) at key moments.

I missed the traditional *Otello* spaciousness in the ensembles, the feeling in the hero's Act 3 monologue of after-the-storm hush reverberant with grief. Solti still seems to me to keep at arm's length the "inner life" of Verdi's music: for all the technical marvels of Friday's performance, I continue to find him an unmoving *Otello* conductor.

The one untried element on the cast-list is Sergey Leiferkus, here undertaking his first *Iago*. He produces a precise, finely channelled, darkly glowing baritone that, while not conventionally Verdian, suits the music excellently. He holds a balance between the smiling face and the scheming mind which owes nothing to *Iago* cliché (apart from the peals of laughter at the close of the Credo, which should be abandoned).

He floats and colours the Dream while keeping its narrative coolly unfolding. He will develop much further in the role; already, on a stage mainly given over to the expertly predictable, he provides the genuine dramatic and musical interest.



Richard Fairman

## Theatre/Alastair Macaulay

## Which Witch

HERE it is - the musical from Hell. *Which Witch* has been sent as a punishment on all those who scoffed too harshly on poor feeble little *Bernadette* two years ago. *Bernadette*, a martyr to middle-headedness, at least meant well; it was merely Dr Jekyll. But *Which Witch*, brash and cynical, is Mr Hyde. Although replete with witches' sabbat, exorcism, inquisition, torture scene and burning at the stake, it manages to be excruciatingly dull.

The composers, the Norwegian Ingrid Björnov and Benedicte Adrian, are the chief perpetrators. They met in a sandbox at the age of two (no comment), and have been hard at work on *Which Witch* since 1986. Althorns have already been released, concert performances have been given, and hype is busy.

In addition, Björnov also conducts the music from the pit, and Adrian performs the leading role.

But the music for *Which Witch* is not only bland, it is also ludicrously inconsistent. It has a pop-baroque overtone, a funky-rock executioner's song, numerous operatic trappings and pretensions (even a coloratura mad scene), and whole fallow acres of sub-tuneful declamation that tread the murky borderline between *Les Mis* and Lloyd Webber.

It even has, to accompany a Renaissance wedding dance, a tango accompanied by rock drumming.

*Which Witch* fails even to tell its narrative well. Maria Vittoria, fosterdaughter to a noble Roman house in the era of Farneses and Gonzagas, is in love with Daniel, a priest, and her love does not fail even when she is rejected by her adoptive family or when, after eloping with Daniel and then losing him again to God, she is arraigned as a witch. Björnov and Adrian call it "the powerful story of a woman who refuses to conform - choosing instead to follow her heart and recognise that her consuming love for a man for the Church cannot be denied." But it is unclear whether the big witches' scene that closes the first half is real or dreamt. The overall pace is far too slow, the very ending much too sudden.

The words are by Kit Hesketh-Harvey (no Widow in attendance here). The line in

his programme bio which reminds us that he studied with Sondheim should be suppressed: what did he learn? These lyrics are sheer doggerel, alternating between cheap comedy (two girls we never see again chant "Chastity's extremely dull, God, I want to be a bride") and plodding exposition. Here's a typical couplet: "We can't afford to wait, 'Til I find you at the city gate." And the music weights every syllable like a tombstone.

Richard Hudson's designs and Mark Bailey's costumes are the show's only commendable feature. As Maria Vittoria, Adrian looks pretty but sings - painfully flat - in the worst kind of undernourished squeezed tones. Graham Bickley, as Daniel, has a better voice, but not enough power. As his scheming sister, Vivien Parry demonstrates severe problems with moving in and out of her chest register. There are moments when you can giggle at *Which Witch*, but not many. It is a just a very dreary melodrama.

Piccadilly Theatre (071) 867 1118

## Sponsorship

## Eszterházy influence

THE Palace of Eszterháza in west Hungary was built on a foundation of music.

Its great period in the latter half of the 18th century, when Prince Eszterházy brought Haydn there as composer in residence and enjoyed unrivalled evenings of musical splendour, echoes on in its walls, its rooms, its very fabric - even if the palace has sometimes found itself used since the war for less gracious purposes, such as the billeting of Soviet troops.

Now there is an ambitious plan to put the building to use as an educational centre for music. Since 1989, the Prague Mozart Foundation wants to turn Eszterháza into a college for advanced musicians and when a trial run for a European equivalent of the American Marlboro festival was first tried out in France, the scheme has followed a twisting path, which at times has seemed to grasp at any opportunity as it presented itself.

The present set of plans, however, looks set to become reality. The Foundation, which intends to adopt a new title

with the word "European" prominently on its letter-head, wishes to turn the changed political scene to its advantage and establish a major presence in central Europe. It will embrace three countries - Czechoslovakia, Hungary and Poland - with public performances or festivals in each, at Prague, Budapest and Kraków respectively.

The idea seems to have captured the imagination of European leaders. Jacques Delors had hoped to come to the launch weekend, but a certain other gathering in Birmingham clashed on the same evening. President Gábor of Hungary and Vaclav Havel of Czechoslovakia each attended one of the concerts, which were held at Eszterháza and the barely less elegant castle of Dobřis outside Prague.

Their influence is likely to prove critical if the money for the scheme is to be found. The cost of renovating Eszterháza, which will surely be very considerable, was not included in the calculations. But even setting that aside, the annual operating budget is calculated at some \$4.2m each year.

The Foundation foresees three likely sources of funding. A third of the total is expected to come from individual support; a third should come from scholarships for the students at \$20,000 a time (the EC has said it will fund those from eastern Europe, western European governments will fund their students, while those from the rest of the world will need private funding); the remaining third will have to be found from sponsorship.

In the present economic climate the total plan is ambitious indeed. Undaunted, however, the Foundation is pressing ahead with the auditioning of its first intake of students and preparations for its first operatic production, which is to be Mozart's *Idomeneo*.

An immensely impressive list of musicians has agreed to participate in the academy and its concerts. The first festival is already planned in Prague for April next year. The momentum looks unstoppable.

Richard Fairman

## INTERNATIONAL ARTS GUIDE

## BERLIN

**OPERA/DANCE** Deutsche Oper Julia Varady sings the title role in *Aida* tomorrow and Fri. René Kollo sings Forestan in *Fidelio* on Wed. Sat. an evening of Béjart choreographies. (3410 249) Staatsoper unter den Linden Tonight's performance is the Nureyev production of *Sleeping Beauty*. Tomorrow: *Ariadne auf Naxos*. Wed: Daniel Barenboim conducts Harry Kupfer's new production of *Parsifal*, with Poul Elming, John Tomlinson and Waltraud Meier (also Sun and Nov 22). Thurs: *Il barbiere di Siviglia* with Eva Mei and Matti Salminen. Sat: ballet gala with guests from Stuttgart Ballet and Paris Opéra Ballet (2004 782) Komische Oper This week's programme includes Kupfer productions of *Die Zauberflöte* (Thurs), *Entführung* (Fri) and Gluck's *Orfeo* (Sat), with Jochen Kowalski as Orpheus (2292 555)

**MUSIC** Schauspielhaus Tonight at 20.00,

Ellahu Inbal conducts the Berlin Symphony Orchestra in Mozart's *Haffner* Symphony, Liszt's *Totentanz* (Gerhard Oppitz) and Stravinsky's *Firebird* suite. Thurs: Berlin Capella presents a Stravinsky programme. Sat: Hans-Dieter Baum conducts Berlin Radio Orchestra in works by Handel, Bach and Tchaikovsky. Nov 5, 6, 7: Salvatore Accardo plays Prokofiev's Second Violin Concerto with the BSO (2050 2158)

**Philharmonie** Tomorrow in the Kammermusiksaal, the Polish Chamber Philharmonic Orchestra presents a programme of Rossini string sonatas. Wed: Mecklenburg Chamber Orchestra plays Beethoven and Mozart. Thurs, Fri, Sat: Daniel Barenboim conducts Berlin Philharmonic Orchestra in works by Bruckner and Schubert. James Levine conducts the BPO on Nov 4, 6, 8 and 9. Seiji Ozawa conducts two programmes later in Nov (2548 8232)

## BRUSSELS

**THEATRE** The Royal Shakespeare Company presents *The Comedy of Errors*, directed by Ian Judge, daily from tomorrow till Sat at the Théâtre National (217 0303)

**OPERA** Tomorrow at the Monnaie, Antonio Pappano conducts the first night of Guy Joosten's new production of *Un ballo in maschera*, with Galina Kallina, Franco Farina, Livia Budai and Knut Skram. Runs till Nov 15, next performances on Thurs and

Sun. Fri: Thomas Hampson song recital (219 6341)

## GENEVA

Geneva's first jazz festival opens tomorrow evening at Plainpalais and runs till Sat. Tomorrow's programme features Nina Simone Trio and John McLaughlin. Wed: Joe Henderson Trio and Maynard Ferguson. Thurs: Brecker Brothers and Ella James. Fri: Lionel Hampton. Sat: James Blood Ulmer and George Gruntz Chicago Cantata. Tickets from Grand Passage (310 6611) or Ticket Corner (376 8225)

## MILAN

From tomorrow till Sat, the Ballet of La Scala presents daily performances of the Nureyev production of *The Nutcracker*. Next Mon: La Scala Ballet School. Nov 11: Riccardo Muti conducts the Orchestra of La Scala. Nov 23: Dmitri Hvorostovsky song recital (7200 3744)

## NEW YORK

**DANCE** Paul Taylor Dance Company is in residence this week and next at City Center. Nov 18-22: Houston Ballet. Dec 9-Jan 3: Alvin Ailey American Dance Theater (131 West 55th St, between Sixth and Seventh Avenues. Call City Tlx 581 1212)

**OPERA** Christine Weidinger sings the title role in tonight's performance of *Semiramide* at the Met, repeated on Fri. Tomorrow and

Sat afternoon: Tosca with Pavarotti and Dimitrova. Wed and Sat evening: Philip Glass's new opera *The Voyage*. Thurs: Madama Butterfly. Next Mon: L'elisir d'amore (362 6000). State Theater has City Opera productions of *Die Zauberflöte*, *Die Fledermaus* and *Carmen* (870 5570). The Philip Glass/Robert Wilson music theatre piece *Einstein on the Beach* can be seen at Brooklyn Academy of Music Nov 19-23 (718-636 4100)

**MUSIC** Roger Norrington conducts the Orchestra of St Luke's at Avery Fisher Hall on Wed in a Beethoven programme including the Violin Concerto (Thomas Zehetmair) and Fifth Symphony. Tomorrow's New York Philharmonic programme, conducted by Kurt Masur, is also all-Beethoven: the three Leonore overtures and Seventh Symphony. Klaus Tennstedt conducts the next series of Philharmonic concerts (Thurs, Fri, Sat and next Tues) featuring Mahler's Sixth Symphony. Guest conductors in Nov include Zubin Mehta, André Previn and Kurt Sanderling (875 5030). Nov 4 at Carnegie Hall: Horacio Gutierrez piano recital. Nov 15: Thomas Hampson song recital (247 7800). Nov 13 and 14 at Brooklyn Academy of Music: Glass *Reflections*, including world premiere of Philip Glass's *Low* Symphony (718-636 4100)

## UTRECHT

Vredenburg 20.15 Antoni Ros-Marba conducts the

Netherlands Chamber Orchestra in works by Copland and Ginastera, with Andrei Gavrilov soloist in Mozart's *Piano Concerto* no 20. Thurs: piano recital by Peter Rösel. Sat: Edward Downes conducts Hague Philharmonic Orchestra in works by Debussy, Reger and Stravinsky (314544)

## VIENNA

**CONCERTS** Konzerthaus Wien Modern, Vienna's annual contemporary music festival, opens tomorrow and runs till Nov 27. This year's featured composers are Luigi Dallapiccola, Hans Werner Henze, Iannis Xenakis and Kurt Schwertsik. Tomorrow and Wed: Asko Ensemble plays music by Xenakis, Dallapiccola and others. Thurs: piano recital by Homero Franceschi. Fri: Gianluigi Gelmetti conducts Henze's Seventh Symphony. Sat: Claudio Abbado conducts the Gustav Mahler Jugendorchester (712 1211) Musikverein Stefan Vudlar is piano soloist in tonight's concert by Ensemble Wien-Berlin, featuring music by Francaix, Mozart, Milhaud and Poulenc. This is part of a series entitled *Satie and Les Six*, which also includes concerts conducted by Michel Plasson on Thurs and Fri, featuring the Pekinel Sisters (505 6356). This week's programme also includes a concert by the Orchestra of the 18th century on Wed and a Schubert and Brahms piano recital by Alexis Weissenberg on Sat (505 8190)

## OPERA

Staatsoper Tonight's performance is *Le nozze di Figaro*, with Cheryl Studer, Bryn Terfel and Anton Scharinger (also Thurs). Tomorrow: *L'elisir d'amore* with Leontina Vaduva, Roberto Alagna and Gabriel Bacquier. Wed: Minkus' ballet *Don Quixote*. Fri: Prokofiev's ballet *Romeo and Juliet*. Sat: Der Rosenkavalier (51444 2960)

**Volksoper** A new production of Gottfried von Einem's opera *Dantons Tod* opens tomorrow (repeated on Fri). This week's repertoire also includes *Die Fledermaus* tonight, *Nabucco* on Wed and *My Fair Lady* on Sat (51444 3318)

**Kammeroper** The company celebrates the start of its 40th season with a production of Henze's *English Cat* opening tonight at 19.30, repeated on Wed, Sat and Nov 7, 9 and 11 (513 6072)

**THEATRE** Ariel Dorfman's Chilean drama *Death and the Maiden* opens at the Theater in der Josefstadt on Fri (402 5127). The Volkstheater has a new production of Edward Bond's *The Sea* tomorrow and Fri (932776). This week's repertoire at the Burgtheater and Akademietheater includes *Ibsen's An Enemy of the People* and Shakespeare's *Macbeth* (51444 2218)

● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

## European Cable and Satellite Business TV

(all times CET)

## MONDAY TO FRIDAY

CNN 2300-2330, 2330-2350 World Business Today - a joint FT/CNN production with Grant Fyfe and Colin Chapman

Super Channel 0700-0710, 1230-1240, 2230-2240 FT Business Daily 0710-0720, 1240-1300 (Mon, Thurs) FT Business Weekly - global business report with James Bellini 0710-0730, 1240-1300 (Wed) FT Media Europe 0710-0730, 1240-1300 (Fri) FT East-ern Europe Report 2240-2245 FT Report

Sky News 2030-2100, 2230-2300 FT Business Weekly

## SATURDAY

CNN 0900-0930, 1900-1930 World Business This Week - a joint FT/CNN production

Super Channel 0630-0600 FT Business Weekly

Sky News 1130-1200, 1730-1800 FT Media Europe

## SUNDAY

CNN 1030-1100, 1800-1830 World Business This Week

Super Channel 1900-1930 FT Business Weekly

Sky News 0130-0200, 0530-0600 FT Media Europe 1230-1400, 2030-2100 FT Business Weekly



## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday October 26 1992

## Why the Gatt talks matter

WHOM THE Gods wish to destroy, they first make mad. A half a million tonnes of soybeans is - so the world is informed - all that now obstructs an agreement of the greatest importance both to the global economy and to harmonious relations among the great trading powers. If so, this is lunacy. The Gatt talks are too important and the need for agreement too urgent to permit such folly.

Huge sums are being bandied about as the potential benefits from trade liberalisation. Such calculations must be tentative. But economic integration has been the engine of world prosperity throughout the post-war era. There is, for example, much talk of the large "home markets" that the EC's single market programme or the North American Free Trade Agreement will secure for those within them. But the more successful the Gatt becomes, the more producers, wherever located, will be able to look on the world as a whole as their home market.

As striking as the potential rewards for success is the price of failure. Roughly half of world trade is among, not within, the world's main regions. If such trade is to survive, let alone grow still further, it needs to be put on a liberal and, as important, a predictable basis. There is a serious danger, however, that the failure of the Uruguay round talks would lead to progressive unravelling of the benefits for global trade of what has already been achieved under the Gatt.

Agreement matters as much for global politics as for economics. This is partly because prosperity provides the underpinning of political stability. It is also because diplomatic relations both between developing and developed countries and among developed countries focus ever more on economic matters. Trade is already at the head of any agenda for discussions between the EC and the US. But such disputes can no longer be held in check by cold war security relationships. They must be handled on their own terms, which only a rule-based system like the Gatt can hope to ensure.

If a successful Uruguay round is important, no less important is an outline agreement before the US election. Mr Clinton is unlikely to repudiate a successful deal. But if

there is no outline agreement, the entire Uruguay round will go into abeyance while the new administration tries to renew its fast track legislative authority and sort out its priorities. There is, in addition, no reason to suppose it will be easier to reach an agreement with a Clinton administration and, given the protectionist tendencies of many in the Democratic party, good reason to believe it may be still more difficult.

This may be precisely what those who oppose agreement, notably the French government, may hope. If so, it should consider the implications for an already quite unstable world economy of a breakdown in these talks, especially when the EC's failure to give the US satisfaction over soybeans is likely to lead to a tit-for-tat protectionist war as well.

A half a million tonnes of soybeans is the ostensible reason for failure to complete the deal. But the French government probably does not want one at all, for domestic electoral reasons, preferring the tawdry comforts of failure over the risky politics of success. There is even some questioning in Paris of the painfully achieved deal for reform of the Common Agricultural Policy, which forms the basis of the EC's position in these talks. The German government is internally divided, but part of it is quite happy to hide behind French reluctance to agree export limits on cereals, in order to protect its own production of cereal substitutes. Mr Delors appears tempted by the delusion of an adolescent American big brother. Meanwhile, in Washington an enfeebled administration is under pressure from its domestic farm lobbies.

Notwithstanding all obstacles, an agreement is needed now, partly to show the EC is capable of effective action. Both sets of negotiators should be instructed to reach the best deal they can this week. Let the obstructive forces in the EC and the US dare to vote the deal down. Let the French or German governments dare to scupper the Uruguay round over their right to dump cereals in world markets or protect their soybeans. Both sides must now be put to the only true test: acceptance or rejection of a negotiated package.

## Favourite airline

AS IF THE furore over the coal industry were not enough, British Airways' proposed acquisition of Dan-Air throws up yet more questions about how far the UK privatisation programme has resulted in genuinely free markets. When BA was privatised, it was part of government policy that local competition should be fostered. In the event, smaller UK competitors have mostly gone bust like Lakar, formed protective alliances with big foreign carriers like British Midland or been taken over by BA like British Caledonian.

Some of this may be due to the quality and cheapness of BA's service. If so, it is worth asking how far BA has been kept up to the mark by the gaudy activities of its smaller competitors. But it is also due to BA's market dominance; and that is partly due to the antiquated system by which BA holds airport slots as inherited assets.

In normal circumstances, there would be a clear case for the Dan-Air deal being referred to the Monopolies and Mergers Commission. The proposed merger entails

an evident loss to the consumer, in that BA will cease to compete with Dan-Air on a number of routes. However, a reference would doubtless result in BA crying off, in which case Dan-Air's holding company might well go under. This would lead to job losses in the first instance, even if in the longer run economically viable routes and slots were picked up by other competitors.

But it is not sensible to ignore the context. In the depths of recession, it seems perverse to add some 400 to the ranks of the unemployed and to increase the burden on the banking system through a receivership which could be avoided. But the underlying logic remains. It is not in the public interest that BA should continue to be assisted in overcoming its smaller rivals by a faulty system of regulation. If this deal must grudgingly be allowed through, it is all the more important that the government should tackle the strategic issue of how to throw routes and airport slots open to the forces of the free market.

## London's health

THE PUBLICATION of Sir Bernard Tomlinson's official report on the future of London's health services has led to another burst of campaigning on behalf of well-known hospitals in the firing line for closure or merger. A government already badly shaken by the reaction to its plans for rationalising the coal industry will need to keep its nerve if it is not to succumb to misconceived pressure from those seeking to defend these much-loved institutions.

Sir Bernard and his colleagues have produced a convincing case for action. London's health service is overburdened with hospitals, carrying hefty overheads and duplicating specialist services. Great though their reputation is, they consume 50 per cent more resources per head of population than hospitals in other cities. They also rely on a flow of patients from outside their local areas which is drying up as the internal market in the health service encourages doctors to refer their patients to local hospitals which are cheaper.

At least as important as closing costly excess hospital capacity is the need to improve London's community health services. Too many Londoners are served by over-stretched, single-handed fam-

ily doctors working from poor-quality lock-up premises. London GPs employ fewer practice support staff, do less health screening and have bigger patients' lists than their colleagues elsewhere.

Yet family doctors are playing an increasing role in healthcare nationally. Many operations which previously needed hospital facilities are now carried out by day surgery which can be provided locally in health centres. Although these are both cheaper than hospitals and more convenient for patients, London lags well behind in the provision of such facilities.

Tomlinson says that a shift from hospitals to primary health care could be self-financing, with the cost of enhanced community services balanced by savings on hospitals. Mrs Virginia Bottomley, the health secretary, will have to fight for extra resources to ease the transition, however, if the improvements in primary health care are to be apparent before the hospital rationalisation begins. Her initial response - promising consultation with the staff and hospitals and consideration for the needs of health service staff - shows that one lesson has been learnt from the debacle over pit closures.

The moderation which has always been a hallmark of Canadian politics is in serious danger of being undercut by the outcome of a national referendum to be held today.

If opinion polls are right, voters will reject a constitutional reform package which was designed to unite the disparate regions and population groups of the world's second-biggest country, but has ended up exposing their divisions.

The future of Canada itself could be at stake. Mr Joe Clark, the constitutional affairs minister, gloomily predicted last week that a No vote would inexorably lead to the province of Quebec going its own way by the end of the century. "I think gradually the country would just come apart," Mr Clark said.

The Yes forces are still praying for a last-minute miracle. Many voters, especially in Quebec, may have a change of heart as they ponder the economic costs of prolonged political uncertainty and the possible break-up of their country. The Yes side could even pick up a few votes in the surge of Canadian pride which has followed the Toronto Blue Jays' victory over the Atlanta Braves in the World Series baseball championship on Saturday night.

The referendum will not be binding on the federal parliament or provincial legislatures, whose ratification is still required for the new constitution to take effect. But it will be impossible to put the latest proposals into practice without a Yes vote in Quebec and a clear majority of the nine mainly English-speaking provinces.

Besides heightening uncertainty about Canada's future, rejection of the proposals will be a sharp slap in the face to moderate, mainstream politicians. Prime Minister Brian Mulroney, opposition leaders and the premiers of the 10 provinces have spent the past two years painstakingly piecing together a deal.

Voters will be asked today whether they endorse the fruits of those labours in the form of the carefully-balanced Charlottetown agreement (named after the capital of Prince Edward Island where it was signed last August and where, incidentally, the Canadian federation was born 125 years ago).

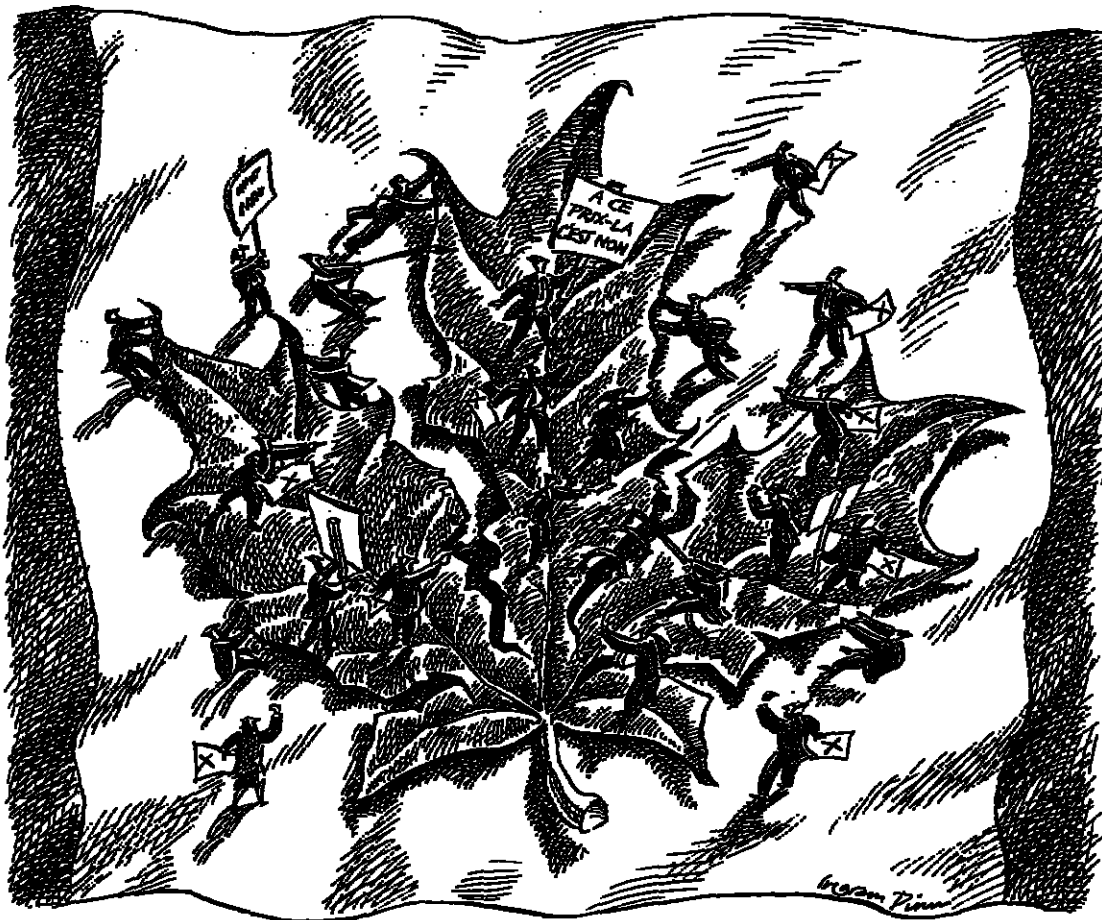
The architects of the Charlottetown deal had two chief aims. First, they had to produce a document acceptable to Quebec. The francophone province refused to sign Canada's 1982 constitution and was left at the altar in 1980 when Manitoba and Newfoundland failed to ratify the Meech Lake accord, the contents of which were similar to, but less far-reaching than the latest proposals.

Second, the latest proposals have attempted to redress some of the long-standing grievances of western Canadians and aboriginal Indians and Inuit. Quebec's right to "preserve and promote" its unique French character would be enshrined in the constitution. Its ability to do that would be buttressed by giving the provincial government control over such matters as culture and immigration. On the other hand, the francophone province would not get jurisdiction over other areas of government - such as regional development - which it has sought.

Western Canadians would gain stronger influence in faraway Ottawa through reform of the federal Senate. The present impotent chamber, which is filled with patronage appointees mostly from Ontario and Quebec, would be replaced by an elected body with equal representation from all 10 provinces. To mol-

Canada's political future may hinge on the outcome of today's constitutional referendum, writes Bernard Simon

## Unity frays at the edges



lity Quebec and Ontario, however, the revamped upper chamber would have more limited powers than proponents of Senate reform demanded. The central Canadian provinces would also be given stronger representation in an enlarged House of Commons.

The Charlottetown deal, in other words, is a classic Canadian compromise. By rejecting it, Canadians run the risk of passing the initiative to the less moderate, more self-centred, groups which have campaigned against it. The Alberta-based Reform party, for instance, has argued that the proposed new constitution gives away far too much to Quebec.

Mr Pierre Trudeau, the former prime minister, has persuaded many English speakers to vote No today by accusing the deal's architects of bowing to "blackmail" by the francophone province. Mr Trudeau and other arch-federalists say Quebec's demands for more powers should be resisted and its threats to break away from Canada ignored.

But the biggest winners from a No vote are likely to be the two separatist parties, the Parti Quebecois and Bloc Quebecois. Their leaders, Mr Jacques Parizeau and Mr Lucien Bouchard respectively, have heaped scorn on Quebec premier Robert Bourassa for "selling out" the francophone province. They argue that Mr Bourassa failed to get the extra powers for Quebec in

Charlottetown demanded by his own Liberal party. "A ce prix-la, c'est Now" ("At that price, it's No"), the separatists' posters proclaim.

Almost all the country's elected politicians, not to mention business and trade union leaders, have come out in favour of the deal. They have campaigned across the country in "odd couples" such as Conservative Mr Mulroney and Ontario's Social-Democratic Premier Bob Rae. The heads of Ontario's Chamber of Commerce and Federation of Labour briefly put aside their differences last week to declare the agreement "an excellent consensus".

But like last month's referendum on the Maastricht treaty in France, the campaign in Canada has become a lightning rod for a disgruntled electorate vent its anger at unpopular political leaders. The economy remains mired in recession, with unemployment at more than 11 per cent. Public spending is being cut. Many Canadians put the blame on plant closures caused by the 1989 free-trade agreement with the US, on high taxes, and on generous policies towards immigrants.

While French voters took out their unhappiness on President Mitterrand, the main targets in Canada have been Mr Mulroney and Mr Mike Harcourt, British Columbia's Social-Democratic premier. The

Reform party's TV ads pointedly call the Charlottetown agreement "Mulroney's deal". They add: "If you want to follow the politicians, vote Yes. If you want to lead the politicians, vote No."

Defending the compromises in the Charlottetown agreement has proved difficult. No sooner had a British Columbia minister assured his constituents on the west coast that Quebec gained very little from the deal, than his words were repeated by the separatists to prove what a weak-kneed negotiator Mr Bourassa had been. But the referendum has also brought to the surface some longer-term and more fundamental shifts in society.

A gradual transfer of power to provincial governments over the past two decades has encouraged Canadians to put narrow regional interests above those of the nation as a whole. The political clout of aboriginal people has grown enormously in recent years. Prof Klmon Valaskakis, an economist at the Université de Montréal, compares Canada to a club where "the costs go up, and the services to members keep going down".

Similarly, the balance between individual rights and collective responsibilities has been altered by the Charter of Rights and Freedoms, which enshrined various rights as part of the repatriation of the constitution from Britain in 1982. The charter has greatly

improved the lot of, for instance, religious minorities or people with disabilities. But in the process, it has increased the political power of special interest groups, making it difficult to forge a consensus on an issue as broad as a constitution.

The federal government even failed during the Charlottetown talks to persuade the provinces to commit themselves to a mechanism for bringing down the non-tariff barriers - such as government procurement preferences and transport licences - which often make it easier for Canadian companies to trade with the US than with other parts of their own country.

Such disparate forces as television, cross-border shopping and the US-Canada free trade agreement are slowly but inexorably drawing Canadians closer to the states to the south, than to the provinces to the east and west.

Canadian and US companies are integrating their operations on the two sides of the border, treating North America as a single market. Even the millions of Canadians who cheered their team on to victory in the World Series had no choice but watch TV coverage provided by CBS, the US-based network.

Judging by opinion polls, radio talk shows and even casual conversations, most Canadians, whether they end up voting Yes or No, never want to hear the word "constitution" again. Mr Mulroney and other leaders in English-speaking Canada are thus likely to respond to a No victory by seeking to close the book on constitutional negotiations for the time being. They will be anxious both to save their own political skins and to contain the economic damage which further political uncertainty could cause.

Although the new constitution would not defuse Canada's political tensions overnight, business leaders are optimistic that its adoption would at least bolster investor confidence and hasten economic recovery. It might shift politicians' attention from the struggle to keep the country together and towards ways of improving the country's long-term competitiveness - for instance, by dismantling inter-provincial trade barriers and easing the implementation of the North American Free Trade Agreement.

Observers say a No vote would, at the very least, delay a resumption of the downward trend in interest rates. The main banks raised the prime rate (the rate at which they lend to their best customers) by a record two percentage points to 8.25 per cent last month as the Canadian dollar fell in anticipation of a No vote.

But Mr Parizeau and Mr Bouchard in Quebec will have the hit between their teeth. They started their referendum campaign last August merely by asking voters to reject the terms of the agreement. But the scent of victory has emboldened them to turn the vote into a mandate for stepping up the drive towards Quebec independence.

In the event of a No vote, they are planning to push for a provincial election which must, in any case, be held within the next two years. If they win, they have promised a referendum on some form of independence. The chances are remote that any Quebec politician would risk speaking out in favour of closer ties with the rest of Canada. At the same time, English-speaking federalists may grow weary of fighting yet again to keep their country in one piece. Canada will not break apart soon. But it is in real danger of drifting apart.

## Samuel Brittan

### Advertise for governor



There is one lesson from the BCCI affair that you do not need to be an expert in financial fraud to draw. And it is this: if one body is responsible both for monetary policy and financial regulation, both jobs will be badly done. No-one is clearly responsible for anything because everything is done "together" in true British way and whatever the humiliation no heads roll. It is a similar mistake to having one Covent Garden board responsible both for opera and for ballet.

So the first requirement in reforming the Bank of England is to have full responsibility for supervision of the banks and the financial system from monetary policy, a separation that already occurs in many countries.

The next requirement is to appoint a new governor, to take over in 1993, who is a professional. Running monetary policy is a difficult and specialist task. Yet the candidate favoured in the betting odds is a popular merchant banker, Sir David Scholey, chairman of S G Warburg, who knows the City well but would never claim to be any kind of economic or monetary thinker. No wonder a distinguished US economist, who has helped central and eastern European countries, declined to apply for the job of chief economic adviser to the British government, saying that he "did not take on hopeless cases".

When Robin Leigh-Pemberton was appointed in 1983, I wrote an article attacking the Thatcher government for a wasted opportunity, being careful to do so before I ever met him. Leigh-Pemberton asked what I had against him. The answer was "Nothing whatever." It was just that we needed not a "gent", but a professional. If this was so nine



Donald Brash: popular banker

years ago, how much more is it so after recent humiliations.

Unfortunately, there is a great shortage of obvious candidates. The Bank's internal candidate is Eddie George, the deputy governor, who effectively runs monetary policy there. He is now less likely to get the job for the bad reason that he is too high up to be able to shrug off the BCCI affair. I would be in his favour if the Bank's monetary and exchange rate record were better. But I am not one of the financial journalists who believe that the Bank always gives perfect advice and that mistakes are always due to ministers not taking it.

A future governor, but not this time round, may be the Bank's economic director, Mervyn King. For he is not yet associated with enough policies or judgments, good or bad, to assess. A once-favoured candidate is Sir David Walker, best-known as chairman of the Securities and Investment Board, who was a Treasury high-flier, but is now chairman-elect of Lloyds bank.

There may be people in the academic world or in the City who meet the bill. None come to mind. It

is absurd, however, to limit the choice to those known in a small circle. Whenever Conservative ministers have asked my opinion on people for jobs, I have replied: "Why don't you use the markets in which you say you believe - which in this instance means advertise?" In fact, the post of chief government economic adviser was advertised last year, and the new head of the Central Statistical Office, Bill McLennan, is an Australian, who was head-hunted.

There is no reason why the new governor should be a UK citizen even if a minor amendment is required to the Bank of England Act. I have recently been impressed by Sweden's Bengt Dennis, who could be addressed informally in the UK by his surname.

But probably a better choice would be Donald Brash, the governor of the Reserve Bank of New Zealand, who has been operating a form of independence under a British-type constitution. He was appointed by Sir Roger Douglas, the free-market Labour finance minister, with a contract to deliver stable prices, defined as 0 to 2 per cent inflation. The contract was renewed by Ruth Richardson, the National party finance minister - dubbed New Zealand's Lady Thatcher - and the target date stretched slightly to 1993.

Although, contrary to City myth, Brash's salary does not depend on achieving it, his job is on the line. With an inflation rate of 1 per cent he is well ahead of schedule. Moreover, the recession incurred in the early years of stabilisation is now behind New Zealand, where real gross domestic product is on track to grow by 2 per cent this year, and 3 per cent in each of the two following years. For what it is worth, Brash is known and popular in London. Nevertheless one should not let prejudice the result of an open competition.

## GREEK EXPORTS S.A.

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The HELLENIC MEAT INDUSTRY was founded in 1968 in Athens with a life span of 50 years. From 1973 to 1976 the company has been under liquidation. It was revived on August 18, 1976 and has been operating under its present name since August 16, 1977. It has a pork breeding and an industrial meat unit installed on a self-owned site of 819,000 sq. metres.

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### FINANCIAL DATA

(in thousand drachmas)

	1988	1989	1990	1991
Total Assets	919,963	914,940	825,512	683,055
Total Sales	1,046,738	1,129,557	1,179,971	1,073,387

Note: The above financial data are derived from published balance sheets.

### DEMATIONALISATION PROCEDURE:

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- Potential buyers, after having promised in writing to maintain confidentiality, can receive the Offering Memorandum and have access to other information concerning the enterprise for sale.
- The announcement of a public auction for the highest bid will be published within the prescribed time limits and in the same newspapers.

For any additional information please apply to:

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Directorate of Participations  
87 Syngrou Avenue, 2nd floor, tel. (01) 929.4395 and 929.4396 and
- GREEK EXPORTS S.A.  
17 Panepistimiou Street, 1st floor, Tel. (01) 334.311-115



# Brussels tries to plug an information gap

The European Commission believes that misunderstanding is hindering the process of integration, says Andrew Hill

**T**he death of unpasteurised camembert has been greatly exaggerated. According to the European Commission, there never was a threat from "meddling Brussels bureaucrats" to do away with cheese made from untreated milk. Thousands of frightened French fromagers were misguided, as was the Prince of Wales, who made a celebrated speech defending obscure French cheeses in Paris six months ago.

Why then was the alleged threat to French cheese still so prominent on the menu of complaints levelled at Brussels during the Maastricht referendum campaign in France?

Mr Jacques Delors, the European Commission president, says the prevalence of such examples of alleged Euro-madness are symptoms of the difficulty of information in the Community.

Although the extent of opposition to the Maastricht treaty in the French and Danish referenda clearly worried Mr Delors and his colleagues, they were also disturbed by the depth of misunderstanding of the EC which opponents of the treaty were able to exploit.

In successive speeches over the past few weeks, Mr Delors has lambasted Europe's political elite for failing to explain the EC to their fellow citizens. He believes politicians, including the commissioners themselves, should inform their constituents about the community's complex institutional framework, how it works, what its purpose is, and why its policies - from environmental control to food hygiene - are necessary.

The problem for Mr Delors is that the Commission is only one voice among many informing the EC citizen about the Community. And the Commission itself speaks with several voices, a situation which reflects the current internal confusion about Brussels' political status: about the Commission behave like a quasi-governmental organisation, trumpeting its own message, or merely as a tool of the member states?

Mr Delors has the personnel and financial backing to launch a more aggressive information campaign promoting the Community. At least Ecu60m (£48.06m) is spent on information policy by Brussels every year. Roughly half of that is used by the information directorate, which was responsible for Euro-displays at the opening ceremonies of the winter and summer Olympic games as well as the EC pavilion at the Seville Expo; the other half is spent by individual



Euro-speak: Jacques Delors' problem is that the Commission is only one voice among many informing the Community citizen

departments promoting their own policies, such as research programmes. The Commission also has a small spokesman's service, producing daily information and responding to the queries of Brussels' 600-strong press corps at regular midday briefings.

But for the time being, the Commission's information policy is a sort of UN peacekeeping force, returning fire only when fired upon.

Mr Delors himself is convinced that this hands-off policy is correct, and that a more aggressive approach would be

**The Commission's information policy is a sort of UN peacekeeping force, returning fire only when fired upon**

counter-productive. "During the French referendum campaign I was told that the Commission should have informed the French people about what was going on," he told the European Parliament earlier this month. "But can the Commission usurp the role of the French authorities, can the Commission just demand airtime on radio and television? That would have made matters worse, and might have lost the referendum."

Commission spokesmen and information officials are unani-

mous that it is the member states which should bear the burden of closing the information gap, explaining the European Community and the role of the Commission. Its 20 information bureaux within the EC exist to distribute information and answer direct queries. But they can do little - so the official line goes - against disinformation put out by national governments, industry and the press.

As Mr Bruno Dethomas, the Commission's and Mr Delors' chief spokesman, puts it: "Without a common political will to restore the [Commis-

sion's] image you could pay the best PR agency in existence and employ the best spokesmen on earth and you still wouldn't be able to change anything."

But that common political will is a long way off. Sir Bernard Ingham, Downing Street spokesman when Lady Thatcher was UK prime minister and now an outspoken Euro-sceptic, believes the Commission already goes too far, and says that, in any case, it is unrealistic to expect 12 nations suddenly to start speaking as

one. "Individual governments exist to put over their own point of view and they fight for their own national interests," he points out.

Under such circumstances, some Commission officials believe that Brussels should be fighting back with a more aggressive information policy, which would reflect its genuine political aspirations, rather than complaining about disinformation by national governments. Some publicity-hungry commissioners, like Sir Leon Brittan, are already happy to take the fight to the member states in areas where the Commission has autonomous powers, such as competition policy.

The Commission believes one way of setting the record straight might be to use commissioners' political clout more constructively.

For example, at last week's emergency summit of EC leaders - which pledged to improve openness and democracy in the Community - Mr Delors proposed sending individual commissioners out to national parliaments to explain the Commission's plans for the year.

At the same time the Commission president is considering the establishment of a working group, made up of half a dozen communications professionals - senior journalists, public relations consultants and national government spokesmen - to examine Commission and Community information policy.

The information directorate itself, in one of its periodic and convulsive changes of strategy, is devolving more responsibility to individual departments - external relations, research, agriculture, and so on.

In the longer term, information officials in Brussels dream of encouraging citizens to identify with the Community, for example through EC-funded cultural programmes. Ms Collette Flesch, the former Luxembourg minister who heads the information directorate, says: "We ought to try and bring about some emotional link with the Community and the positive things it has brought about: peace, economic growth, social progress."

At the moment, with the European economy struggling and the Commission under attack for allegedly riding roughshod over national identities, such plans are a long way from fruition, as Ms Flesch and her colleagues freely admit. As one Commission official puts it: "Instead of waving the blue and gold-starred flag and singing the European anthem, we ought to be out there explaining our policies."

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Supply side beyond the means of the market alone

From Ms Susie Symes.

Sir, Could you not have slipped a sample of snake oil inside your issue of October 22, as glossy magazines do with perfume? I needed something for my own depression after reading Samuel Brittan's Economic Viewpoint. Whatever happened to supply-side politics? Not in the limited sense of freeing-up markets, but policies directed towards potential output.

Investments in human capital, in environmental, transport and social infrastructure, all contribute to a greater capacity to produce at lower cost. Most of these activities

could usefully employ those who would otherwise remain permanently unemployed; and provide the demand impetus needed, with the insurance that not all the proceeds can be frittered away in the short term. And no, the market will not provide all the long-term infrastructure investment our society needs, precisely because the benefits accrue more widely than to today's business investors alone.

Susie Symes, director, European programme, The Royal Institute of International Affairs, 10 St James's Square, London SW1Y 4LE

### Implications of floating exchange rate on Bank of England independence

From Sir Alan Walters.

Sir, It is some years since I have been able to agree wholeheartedly with a leader in the Financial Times. It is a pleasure to say that I find virtually nothing to quarrel with in "A new policy framework" (October 21) - except that it is a few years late.

In addition to a "thorough investigation into the decisions associated with the UK's membership of the ERM", I believe it is important to examine the decisions from 1985 and particularly from 1987 when Nigel (now Lord) Lawson pitched Britain into the ERM in all but name.

Many, myself included, have suggested that the Bank of England be given more or less complete independence in conducting monetary policy rather than serve merely as adviser to the Treasury. But if we are still en route to Maastricht, as the prime minister says, and we do not invoke the opt-out provision, then the Bank will be merely an operating arm of the European Central Bank with no independence at all.

If, on the other hand, we rejoin the ERM, whether we opt out or not, then again it is difficult to see what independence the Bank can have under such a closely pegged, even fixed, exchange rate regime.

Only if we continue to float can a Bank of England have real responsibility for monetary policy. The notable examples of independent central banks which you mention, the US and Germany, have floating exchange rates. So the Fed and Bundesbank can pursue monetary policies suitable for their own domestic conditions.

Because of the possibility of breakdown on both Maastricht and the ERM as we know it, and because it is possible that Britain will have a floating rate regime, I think it is wise to consider the implications in terms of an independent Bank. Alan Walters, vice chairman, AIG Trading Corporation, 1200 19th Street NW, Suite 605, Washington DC 20036, US

### Too kind about a mugging

From Mr Warren Oliver.

Sir, Your front page headline is surely too kind to the UK government - or am I making the common American mistake of failing to notice British irony. "Cabinet thwarts Tory revolt" (October 22) is true

only in the sense that a New York pedestrian "thwarts" a revolver-wielding mugger by immediately handing over his wallet. Warren Oliver, 44 Highbury Hill, London N5

### Energy policy: needs of electricity customers and coal priorities

From Mr J C L Cox.

Sir, We welcome the government's decision to undertake a wide ranging review of energy policy, with specific reference to the fuels used for electricity generation, and to publish the results in a white paper.

It is essential that the review takes full account of the interests of electricity customers and not just the interests of the supply industries. The needs of large industrial customers carried little weight in the decisions that were made on the restructuring and privatisation of the electricity industry, and price increases they have since suffered are making it difficult for them to justify reinvestment in Britain.

Electricity prices to large users in this association have increased on average by a third over the past two years, with much higher increases in specific cases. The "pool" price, which sets the level for indus-

trial contracts, increased by 20 per cent last year, and is expected to rise again by 20 per cent this year, against a background of static or falling basic fuel prices.

The prospect for next year, when the new coal deal comes into effect, is a further substantial increase and this expectation is based on estimates by the electricity supply industry. This is an aspect of energy policy that must be taken into account in the review that has been promised by the government.

John C L Cox, director general, Chemical Industries Association, Kings Buildings, Smith Square, London SW1P 3JJ

From Mr Colin Haslam and others. Sir, If the privatised electricity companies are left free to

build all the planned COGT gas stations then the power station demand for coal will be much reduced within a few years. Public discussion has so far focused on whether this reduction in the size of the coal industry is justifiable or represents a coherent energy policy.

There has been no discussion about the implications of much reduced power station demand for coal; the implications for the shape of the coal industry; the balance between open cast, capital intensive deep mining at Selby and traditional deep mining which is more than twice as labour intensive.

Both British Coal and the government favour open cast coal which is cheaper than the deep mined product. British Coal management is fiercely protective of its near £2bn investment in the Selby complex, the cost advantage of which is much less certain. Open cast mining is expected

to provide about 17m tons and the Selby complex has a projected output of some 10m tons. It is a matter of simple arithmetic to see that all other coalfields and pits will be left to scabble for very little if power station demand for coal drops towards 30m tons.

It is time for British Coal to disclose and justify the strategic priorities which are behind its present and future closure lists. Our suspicion is, at low levels of demand for coal, British Coal management is as much a threat to British miners' jobs as the absence of a government energy policy. Colin Haslam, Andrew Adcroft, Sukdev Johal, University of East London, Karel Williams, University of Central Lancashire, John Williams, University of Aberystwyth, Wales

## OBSERVER

### Bread winner

Who says British manufacturing industry is on its last legs? A Corby company has just launched a cunning piece of world-beating technology to ensure that sandwiches are accurately cut into neat diamond shapes time and time again.

Whatever their filling, the £12,500 machine shepherds them along at rates up to 3,600 a minute, and aligns them at the precise angle to allow them to be cut from corner to corner.

As a result, Rutland Handling & Packaging Systems expects to make a meal out of the UK sandwich market which is estimated to be worth £1.7bn a year.

For one thing, the development reduces wastage caused by "poor sandwich alignment" - which at as much as 2 per cent of the materials involved, can eat volume producers' profits away. For another, it should go down well with big retailers such as Tesco and Marks & Spencer which spurn sarnies of improper cut.

The company also hopes to add more than a crust to Britain's balance of payments by exporting its machines. So far enquiries have rolled in from Sweden, Germany, New Zealand and Saudi Arabia to name but a few.

when Baroness Thatcher, then his party's leader, agreed to publicise his deed by joining him and the dog and its young owners for a photo-call on Westminster Bridge.

As a result, he discovered one of his leader's prime characteristics as a top politician - one which some readers may think her successors share.

"For the little dog, named Jason, attempted to mate with Mrs Thatcher's leg," Parris told the Market Research Society's annual dinner. "Yet she continued to smile, pose and shake hands...."

"It was then I saw her ability to pretend nothing was happening on top when everything was going wrong down below."

### Dropped

Is nothing sacred at BP in its dash to trim costs? The fresh cut flowers may have disappeared from the big-wigs' offices, the corporate jets sold off, and the dividend has been slashed. But was it really necessary to axe the company Christmas card?

David Simon, the new broom who replaced Bob Horton, has ordained there will be no "centrally-produced" Christmas card this year. "The labour involved in designing and printing the card and then gathering and collating orders and ensuring their timely dispatch was wholly disproportionate to the value added," notes a corporate memorandum on the matter.

### Just in case

Should the British public's resistance to being submerged within Europe ever be reversed by the fear of being firmly excluded, a suitable model for the climbdown letter to the EC already exists. In 1187, King



I'm the inventor of artificial coal!

Henry II wrote to Holy Roman Emperor Frederick Barbarossa: "Our kingdom and whatever anywhere is subject to our rule we place at your disposal and commit to your power, that everything may be arranged at your nod, and that the will of your empire may be carried out in all respects. Let there be between us and our peoples an undivided unity of love and peace and safety of commerce, in such a way that you, who are pre-eminent in dignity, be given the authority of command, and to us the will to obey shall not be lacking."

### Retiring

Buccaneering Italian businessman Raul Gardini will have to search the seven seas for a new sponsor for his yachting ambitions - unless his Ferruzzi heiress wife chips in the £232.6m she pocketed last year on his "divorce" from the Ferruzzi-Montedison agro-industrial group. Since his Montedison-sponsored America's Cup yacht Il Moro di Venezia was yanked at the post by millionaire Bill Koch, Gardini

has stayed bubbling on the surface of Italian business with takeovers of well-known mineral water brands. But although "Sir Raul" would like to recoup his hero status by sailing for the cup again, Montedison has muted.

On top of the £51m it sunk into his previous attempt, the group lost approaching £7m in its first half and has decided to pull the plug on its much publicised but ruinously expensive sponsoring of sports.

Another of them to be ditched is basketball, the passion of Gardini's 22-year old son Ivan, who was briefly chairman of Ferruzzi's main holding company.

### Ode mode

Thanks to readers who sent in their verse, as challenged just three weeks last Thurs, on the Air Ukraine flier-band learning English in Ireland. The results could have hardly been worse.

While you might think Observer severe, your attempts often make one thing clear - though you may be named Tim or Mick, if you think that's a Limerick, there's something amiss with your ear.

Of a century of entries or so, the bulk had the wrong metric flow. What's more, most of the rest failed the secondary test that the poem must mention Heathrow.

But besides those who missed by a mile, a handful achieved the right style, and the whisky will go to the effort below, which was penned by one David Carille:

Mooed a pilot from green Air Ukraine:  
"Sure, I'm wanting to put down me plane.  
This stack's made me head dizzy.  
Ken's never this busy."  
Said the Heathrow tower:  
"Tough - round again!"

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JOHN MINICY  
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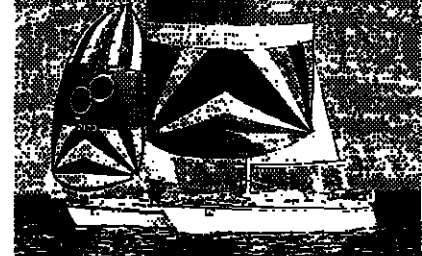


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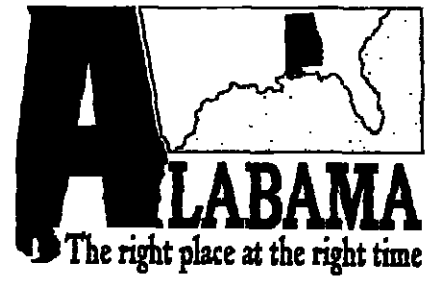
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Canadian victory: Toronto Blue Jays baseball team beat the Atlanta Braves of the US to take the World Series four games to two

## Government warns rejection of reforms could lead to break up of country Canada's leaders urge Yes vote

By Bernard Simon in Toronto

CANADA'S political leaders have made a last-ditch appeal for a disgruntled electorate to endorse a landmark package of constitutional reforms in a referendum today. They warn that rejection could lead to years of uncertainty and, possibly, the break-up of the country.

Although support for the proposed reforms appears to have solidified in recent days, almost every opinion poll suggests the No vote will win by a comfortable margin in at least two provinces, Quebec and British Columbia.

The referendum asks voters whether they agree that the constitution should be "renewed" on the basis of the package called the Charlottetown Accord.

The overall outcome will be less important than the vote in individual provinces, as the Charlottetown deal requires ratification by all 10 provincial legislatures.

A No vote in one or two small provinces could probably be overcome, but political observers agree that the agreement must be approved by Quebec, Ontario and a clear majority of the other eight provinces to have any chance of implementation.

Canadian Prime Minister Brian Mulroney insisted over the weekend that the government's private polls still showed a large number of undecided voters, especially in Quebec.

The Yes side was helped - although probably only slightly - by a frenzy of Canadian patriotism unleashed by the Toronto

Blue Jays victory in the World Series baseball championships on Saturday night.

Mr Mulroney said that a No victory would encourage Mr Jacques Parizeau, leader of the separatist Parti Quebecois, to stir up divisiveness and turmoil about Canada, here and abroad, thereby affecting investment decisions.

Mr Donald Getty, premier of Alberta, added that rejection of the agreement could also encourage Canada's western provinces to break away from the rest of the country and strengthen their ties with the US.

The Charlottetown agreement provides for constitutional recognition of Quebec's "distinct" francophone identity, greater representation for western and Atlantic provinces in a revamped

Senate, and the transfer of some powers from the federal government to the provinces.

The deal is backed by a wide spectrum of the country's political, business and labour leadership, including the heads of all three leading political parties and the 10 provincial premiers.

Its critics range from Quebec separatists, who say the agreement gives too little autonomy to the province, to western Canadians who object to "special status" for Quebec, and staunch federalists, such as former prime minister Mr Pierre Trudeau, who say the agreement will weaken the central government.

Many voters are expected to use the referendum as an opportunity to vent their unhappiness over the economy and the performance of the government.

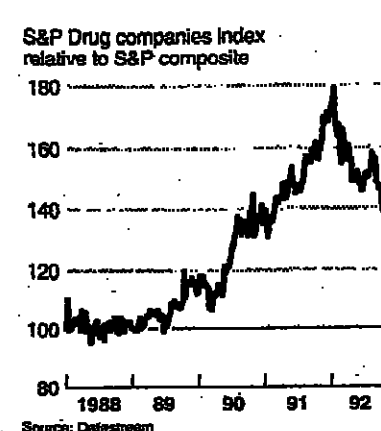
### THE LEX COLUMN

## Clinton's drug test

Mr Bill Clinton's plans for reducing government spending on healthcare have spooked the US stock market. Pharmaceutical companies have notably underperformed since the market started thinking seriously about the chances of a Democratic victory. Judging by the shaky performance of Glaxo, SmithKline Beecham and Wellcome shares in London last week, the condition is contagious. The market may be wrong, though, to make the snap judgement that a new deal on health will be universally bad for the sector.

True, the pharmaceutical industry made full use of its freedom to raise prices in the world's largest drug market during the 1980s. By restricting price rises to the rate of inflation, President Clinton would lower earnings growth for the sector over the coming decade. But a cost-conscious government may also realise that innovative drugs save money by keeping patients at work and out of hospital. Companies which deliver such products will hold strong cards.

Companies with a weak product range and little volume sales growth are at greater risk of squeeze. Just as rising asset prices supported inefficient banks, drug price inflation has disguised a multitude of weaknesses in the pharmaceutical sector. Companies with strong new drugs and volume sales growth are already exercising voluntary restraint on prices. For second-rate players, though, the cost of failure looks likely to rise.



the process. County NatWest's latest investment trust annual notes that half the 76 trusts surveyed already have a year-end portfolio yield which could only be marginally increased without reducing portfolio quality.

Revenue reserves are a useful weapon, especially for the bigger and older trusts - and will certainly be drawn on - though these reserves are not what they were 10 years ago. There are other expedients such as accounting on a cash rather than an accrual basis - thus producing a one-off uplift in earnings - and charging part of management expenses to the capital rather than the revenue account. There is no point in pretending, however, that any of this enhances shareholder value.

### British Steel

Poor old British Steel. Having struggled for so long against subsidised European competitors, it must have thought last month's devaluation would provide a real break. Unfortunately the losses announced last week by Thyssen Stahl are a rude reminder of how weak the continental market remains. Not only is the German car industry turning down; western Europe has been flooded by cheap imports from the east, and Italian producers, whose currency has also been devalued, are continuing to offer heavy discounts.

Some excess European capacity is at least being cut back, but market weakness more or less offsets the devaluation benefits to British Steel. True, it would stand to gain if the European Commission were to erect Community-wide import barriers against eastern Europe. But so far the Commission has simply allowed bilateral restraints

against Czechoslovakian steel to be imposed by France, Germany and Italy. That leaves British Steel out in the cold, as would any increase in the rate of subsidy allowed to continental producers.

Against this background it would be rash to assume that British Steel can automatically maintain its 4.5p dividend for the current year. The payment was already cut from 8.75p in 1991-92 after the company declared a pre-tax loss of £55m and moved from a net cash position of £353m to net debt of £11m. Its operational gearing is considerable, but higher volume will depend on a recovery which seems to be growing more elusive. The historic yield of slightly under 10 per cent leaves the shares looking expensive.

### UK food retailers

It seems matters are coming to a head in the beleaguered middle ground of UK supermarkets. Trading conditions in the overall market seem to have deteriorated. And there are signs that the long and sorry story of the Gateway buy-out is reaching its climax. Mr Bob Willett, Gateway's chief executive and architect of the company's trading strategy, left the company last week. That may be a signal that the backers of the buy-out vehicle Isosceles have lost whatever faith they had left in the company's ability to trade its way from negative net worth to flotation.

However, if the bankers do want to crystallise any loss, their options are limited. The big three supermarket groups, Sainsbury, Safeway and Tesco are unlikely to be interested in much, if any, of Gateway's store portfolio. The smaller fry, Asda and Budgens, are in no position to buy. Among the discounters Kwik Save might be interested in some stores at bargain basement prices, but Aldi may not. Many of Gateway's sites are in less than perfect locations. Unless planning permission becomes harder to obtain, other groups may prefer to expand by developing new sites with better amenities.

Asda, the other mid-market operator which has been savaged by both the discounters and supermarket superstores, is in better shape. It at least has a new management, the kernel of a strategy and a coherent set of shops. But it is still struggling to differentiate itself, and the pressure will intensify. In the long run it may be forced to retreat to its northern stronghold if it is to survive.

## Russian government fights for power as opposition mounts

By John Lloyd in Moscow

THE Russian government, under pressure from an increasingly confident opposition, fought at the weekend to retain its grip on power and its command of the faltering process of economic reform.

Mr Alexander Shokhin, a deputy prime minister for foreign economic affairs, said a referendum on a new constitution might be held soon to circumvent the Congress of People's Deputies - the full Russian legislature which is expected to vote down the government, and perhaps even President Boris Yeltsin, when it convenes on December 1.

He said that holding a referendum on a constitution to replace the Soviet-era constitution which still serves as a legal basis for the state of Russia would "leave the Congress as a temporary body without real weight".

Nationalists and communists united at the weekend under the name of the National Salvation Front to "save the fatherland" from a "government of occupation" leading the country to civil war.

Under the crossed banners of the Soviet Union and the Tsarist government, 1,500 delegates to a founding convention gave oaths to a list of prominent opponents of the government, whose most devastating argument was their recitation of the fall in living standards.

The participants made it clear that they were readying themselves for a bitter struggle,

including a series of demonstrations and strikes in the run-up to the Congress meeting.

Colonel Vadislav Terekhov, leader of the Russian Officers' Union, hinted at the use of force, though most speakers said they would use constitutional means, at least for now.

The Front, ranging from once democratic groups to near extremists of left and right, are distinct from the "centrist" opposition grouped around General Alexander Rutskoi, the Russian vice president, and Mr Arkady Volynsky, the powerful industrialists' leader.

The hardliners are demanding Mr Yeltsin's resignation, whereas the centrists want the resignation of the six to eight ministers who are the most prominent economic reformers in the cabinet, led by Mr Yegor Gaidar, Russia's acting prime minister.

Mr Gaidar, with Mr Shokhin and other ministers, met top industrialists in the industrial city of Togliatti yesterday in an effort to open direct links between the government and the most powerful figures of the centrist opposition. The ministers promised a consultative council and tax breaks, and in return a number of managers spoke in tones of measured support for reform.

Mr Gaidar said there would be no "radical" government changes before the Congress. He added that Mr Yeltsin told him on Saturday that "at the present time the government enjoys his confidence".

## Rebels backing ex-leader attack Tajikistan capital

By Steve Levine in Moscow

ATTEMPTS by the supporters of the former communist president of Tajikistan, Mr Rakhmon Nabiyev, to return him to power were in doubt last night.

Earlier troops loyal to him seized much of the capital, Dushanbe. But Russian news agencies reported that the rebel troops were preparing to withdraw from the capital.

The Russian government predicted "catastrophic consequences" in former Soviet Central Asia if the fighting continued in Tajikistan because it could encourage ethnic and religious instability in neighbouring countries.

Russian troops, who are neutral in the dispute, were said to have taken control of the airport and television station in Dushanbe, while the US closed its embassy after weeks of threats against its employees.

Leaders of the two-day assault against the capital said they wanted to restore order to the country, which they complained had been seized by "a puppet government backed by the Islamic fundamentalists".

The battle began at dawn on Saturday and included an attack on Dushanbe's main mosque, which is the headquarters of Qazi Ali Akbar Toradzon Zoda, Tajikistan's paramount Islamic leader. Mr Zoda, a moderate with ties to all of Tajikistan's warring factions, has long been viewed as the country's most influential political leader.

Last month a coalition of pro-Islamic and secular democratic political parties took power after protesters forced Mr Nabiyev to quit and sent him to exile in the northern region of Leninabad.

The fighting in Tajikistan, which began soon after the Soviet Union dissolved last December, involves two rival ethnic groups that back opposing political factions. The weekend assault came from the conservative southern region of Kuliab, whose population largely supports Mr Nabiyev. Forces defending the government are mostly from mountainous Garm, a relatively poor area where Islam remained strong throughout the 70-year Soviet period.

What earlier yesterday had looked like a change of fortunes for Mr Nabiyev was surprising because Tajikistan is the one Moslem, former Soviet nation where a long-predicted Islamic resurgence has taken hold.

John Lloyd adds from Moscow: Mr Gaidar, president of the autonomous republic of Nakhichevan - an area under the control of Azerbaijan but located in a corner of Armenia - said yesterday that units from Azerbaijan attempted to stage a coup against him but had been beaten back.

The Popular Front, the ruling party in Azerbaijan, has been at loggerheads with Mr Aliyev for some months. Mr Aliyev, a former leader of the Azerbaijan Communist party, said he would now discuss outlawing the Popular Front in Nakhichevan.

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Empresa Nacional de Electricidad, S.A.

has received an upgraded credit rating of

**AA** from Standard & Poor's Corporation

 We acted as financial adviser to  
Endesa during the Rating Process.

**Goldman Sachs International Limited**

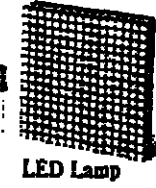
A member of The Securities and Futures Authority.

September 1992





In Touch with Tomorrow  
**TOSHIBA**





## COMPANIES AND FINANCE

## ICI's trading casts shadow over demerger

By Paul Abrahams

THE STOCK market has been hit by an attack of nerves about Imperial Chemical Industries, Britain's biggest manufacturer.

It fears poor trading could force the company, which reports its third quarter results on Thursday, to postpone plans to split itself into two separate groups.

The plan, which was greeted with enthusiasm by investors when it was announced in July, involves dividing ICI's activities between two companies. Pharmaceuticals, agrochemicals and most of its specialities operations would form one, ICI Bioscience, leaving the rest, including industrial chemicals, paints, materials and explosives, in a new ICI.

But the difficult trading climate in the chemicals industry could put the demerger plan on hold.

Analysts expect ICI to produce pre-tax profits this year of about £610m, down from £843m in 1991 and £1,530m in the peak year of 1989. The shares, which closed at £11.71 on the day of the demerger announcement, slipped to £10.47 last week.

When ICI made its July announcement it included an opt-out clause. "Any decision would be taken in the light of market and other conditions prevailing at the relevant time."

Since then, two factors have changed. Trading conditions in the chemical industry have deteriorated significantly and the performance of the pharmaceuticals division, which contributed more than half of ICI's profits last year, has been disappointing.

## Usborne returns to profit as property activities cease

USBORNE, the pig breeder and grain merchant company, returned to profit in the six months to June 30 following its decision to withdraw from property development.

On turnover of £101.2m (£90.6m) pre-tax profits were £233,000 compared with losses of £3,75m, which was struck after a £4.4m provision on a development joint venture and losses of discontinued businesses.

Mr Derek Sawyer, chairman, said that all the residential properties owned by Usborne Developments had been sold and some letting of commercial properties were being achieved in difficult circumstances. Overheads of Usborne Developments were being cut to a minimum.

Earnings per share were

0.92p (losses 4.9p) and the interim dividend is being doubled to 0.2p after having been cut from 0.5p the previous year.

Operating profits in grain merchanting improved to £755,000 compared with £580,000 while pig production advanced to £430,000 against £191,000.

Mr Sawyer said that withdrawal from the ERM should be helpful to agriculture in the short term and he hoped that the violent swings in the pig market experienced in previous years may be avoided this year.

The company has changed its year end to June 30. There will be a second interim report for the period to December 31, 1992.

## Losses cut at Conrad Continental

Losses at Conrad Continental, which has interests in leather clothing, fashion accessories and sports coaching, were cut from £398,000 to £297,000 pre-tax for the half year ended June 30.

The directors said the second half traditionally provided better trading conditions and added that they were confident of being able to report a profit for the period.

First half turnover totalled £2.82m (£4.57m). Losses per share emerged at 0.85p (1.49p).

## Bridgend falls to £0.3m and halves dividend

Profits before tax of the Bridgend Group, which has interests in the distribution and services and leisure industries, fell from £403,000 to £295,000 for the first six months of 1992.

The interim dividend is being halved to 0.2p and the final payment will depend on the group's trading performance at year-end.

First half turnover was static at £6.18m, against £6.2m, and earnings per share of 0.7p compared with 1.05p last time.

## Birmingham Post group at £3.47m after buy-out

By Raymond Snoddy

MIDLAND Independent Newspapers, publishers of the Birmingham Post and Mail, will announce today that it made a healthy profit, despite the recession, in its first report since the management buy-out from Ingersoll Newspapers.

In the six months to the end of June, the group which also publishes the Coventry Evening Telegraph, reported pre-tax profits of £3.47m. Trading profits rose almost four times to £7.3m.

The £126m buy-out, with the support of Canover Investments and CINV, the venture capital group, was completed on November 14 last year. The management team, led by Mr Chris Oakley, the chief executive, and Mr John Whitehouse, finance director, were widely believed to have paid a full price.

Despite the decline in recruitment and property advertising total advertising revenue increased by 2.7 per cent, mainly through attracting new business.

A trading profit for the group's dominant newspaper activities of £6.98m, compared with £1.72m. Return on turnover was 21.5 per cent at the trading level and 10 per cent at the pre-tax.

Apart from attracting new business the main reason for the company's strengthened position seems to have been a substantial reduction in operating costs from £29.6m to £25.5m.

The new management team have been looking at every aspect of the company's operation. The results have included a reorganisation of the press room and drivers moving to contract employment.

Sir Norman Fowler, chairman, believes the company has made an impressive start following the change of ownership.

Since the buy-out the company has acquired the Nunston Tribune and Hinckley Journal titles and launched County, a new Country Life style magazine for the counties of Warwickshire, Hereford and Worcestershire.

Trading profits of about £14m are expected for the full year.

## Heseltine accepts AAH undertakings

By Peter Pearce

MR Michael Heseltine, the president of the Board of Trade, has accepted undertakings from AAH Holdings, the pharmaceutical wholesaler, that it will abide by "protective measures" until the end of March 1993 to safeguard "new entry" into its market in the Grampian and Highland region of Scotland.

He had originally found that AAH's acquisition of the UK business of Medicopharma, the Dutch pharmaceutical wholesaler which withdrew from the UK market in November 1991, had stifled competition in that region, though not nationally. He had recommended that AAH divest the acquired warehouse in Aberdeen.

However, since Norscot Pharmaceuticals, the core of which is the management of Medicopharma's Aberdeen branch, entered the market at the beginning of April, Mr Heseltine has accepted that it is no longer necessary for AAH to proceed with the divestment, merely with the protective measures.

Mr George Berry, managing director of Norscot, said he was mildly surprised by the decision, but not worried by it. In the £50m regional market, Norscot was on schedule for about £15m turnover in its first year.

## Correction

## Airline market share

Due to an error a table which appeared in the Financial Times of October 24/25 under the headline "Flying into a storm of computer protest" was entitled: Gatwick Market

## UK AIRLINES OVERALL MARKET SHARES IN 1991

Airline	Domestic	International	Total
British Airways	43.1	77.8	68.1
British Midland	18.7	5.4	9.9
Air UK	9.5	3.5	5.5
Dan Air	8.2	5.3	5.6
Virgin Atlantic	0.0	4.2	2.5
Other UK carriers	22.4	3.8	10.1

Source: CAA

## Grupo Torras makes a little history

Peter Bruce on the accounting problems of KIO's Spanish subsidiary

DURING the next few days, Grupo Torras, the Spanish industrial holding company wholly owned by the Kuwait Investment Office (KIO), will make a little history by refusing to sign the 1991 accounts prepared by its auditors, Coopers & Lybrand.

It will be the biggest Spanish company ever to reject a set of accounts in this way, and the gravity of the action is compounded by the fact that Coopers has apparently reversed a Pta2.9bn (£36.4m) consolidated profit reported by Torras to a loss, understood to be close to Pta37bn.

The KIO's lawyers have advised them not to sign off the accounts, arguing that to do so would be construed as agreeing they are a true and fair reflection of the company's behaviour.

That is something no one in the KIO headquarters in London or the Torras offices in Madrid is prepared to bet on. The KIO's lawyers, Stephenson Harwood, and its auditors, KPMG Peat Marwick, are close to completing a six-month investigation into claims by new managers at KIO and Torras that the Pta4bn in cash put into Spanish investments by the KIO since the mid-1980s has been wasted and lost.

Until last spring, the KIO had been run directly by members of Kuwait's ruling Al-Sabah family. Its new managers, strengthened by the scale of opposition to the Al-Sabahs in Kuwait's recent election, have begun to turn on the heat in their efforts to discover

what went wrong in Spain. Their conviction that something has gone wrong has been strongly supported by a three-month investigation into the future of the Spanish business by Salomon Brothers.

"At June 30 1992," Salomon says, "Grupo Torras had a negative net worth of Pta51.3bn. If we capitalise all the loans (to Torras) outstanding from KIO... this figure would become a positive Pta5.98bn. If we further adjust for present valuations of the companies (in the Torras portfolio), it goes to a negative net worth of Pta58.06bn."

What irritates the new KIO management is that the money the KIO invests is from the Kuwaiti Fund for Future Generations, a sort of national pension. Last November, Peat Marwick reported that \$2.7bn in cash has been invested in Spain. Further \$1.2bn has been transferred from KIO to Spain this year. What, they ask, has happened to the money?

Grupo Torras is a complicated animal. Salomon says "it can be likened to the conglomerates popular in the 1960s, when it was believed that financial and management acumen could bring additional benefits to this type of organisation (an industrial holding) - however, this was rarely proven to be the case."

But it was also Salomon Brothers who, in November 1988, designed the flotation of Grupo Torras, praising it as "a strongly profitable holding company with pan-European ambitions". Torras, the invest-



Javier de la Rosa: built up Torras with KIO management

ment bank said then, had carried out a diversification programme "with timely acquisitions in some of the fastest-growing sectors of the Spanish economy".

Curiously, Torras is not following a Salomon recommendation that it find a partner for the holding company itself. "If KIO cannot find a suitable partner who can... progressively take control of the investment, over time the group should be eliminated and as each individual strategy for the subsidiaries is adapted, the investments should be passed to other KIO entities," the report says.

But the past will not go away. Mr Javier de la Rosa, the Catalan financier who teamed up with the former KIO management to build up Torras, has an 18 per cent stake in Ercros which he says he was merely holding for Torras. Torras refuses to recog-

nise this. Also, Mr Fouad Jafar, the former KIO managing director who led the expansion in Spain, and a US property developer hold passive stakes in Prima which Torras is also refusing to recognise.

The distrust between the old KIO management and Mr De la Rosa, and the new KIO-Torras team, is considerable. The KIO was astonished to find a contract signed in February 1990 between Torras and Mr De la Rosa's investment company, Quail España, giving Quail control of the management of Torras, plus commissions on business done by Quail on Torras' behalf and a \$50m termination fee.

But this contract was just a renewal of an almost identical one signed in June 1987, with the support of the KIO's long-standing chairman, now retired, Sheikh Fahad Al-Sabah.

Mr De la Rosa says Quail had made about \$120m in commissions from Torras since 1987 but passed the bulk of these on to third parties it had contracted. "I have nothing to hide," he says. "We kept between \$30m and \$40m and it was all declared."

Whether the KIO investigation will be able to turn the suspicion that something offensive happened to its money in Spain into fact is a moot point.

Highly-gearred developments by Prima and the \$1bn investment in a producer of commodity chemicals like Ercros were ill-judged, but will that satisfy the Kuwaiti politicians demanding answers to the Spain debacle?

## Finmeccanica set for stock exchange debut

By Haig Simonian in Milan

FINMECCANICA, the Italian state-owned aerospace and engineering holding company, is set to be listed on the Milan stock exchange.

Private investors would also have been offered a stake in Finmeccanica at a later stage through a 1999bn convertible bond with warrants to buy shares.

However, changes in tax law have made the bond issue less advantageous, while investor interest in Italian equity issues has been tempered by the poor performance of the bourse.

The incorporation of Sifa, which has interests in equity trading and property, has

been thrown into confusion by the financial problems of IRI, struggling to reduce its heavy debt burden and probably reluctant to put up the 1493bn required.

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The incorporation of Sifa, which has interests in equity trading and property, has

sharply improved Finmeccanica's financial position. Sifa is thought to have had about £350m in liquidity, while subsequent property sales have pushed the total to around £800m, bankers say.

Last week, the Italian government announced the loss-making aerospace and defence interests of Efim, the state holding company in liquidation, would be transferred to IRI on a management basis, pending a sale.

Bankers expect the two main companies concerned, Augusta in helicopters and Oto Melara in missiles, to be run by Finmeccanica, possibly as a prelude to an outright takeover once they are restructured.

However, it is unclear whether the additional funds available through the merger with Sifa will spur Finmeccanica, which has grown through acquisitions.

Last year, it reported a £525m loss after meeting a 1999bn Commission requirement to repay IRI £161bn in respect of aid to the Alfa Romeo cars group, which it used to own. Group sales amounted to £10,986bn.

Although the government has said it will take on Augusta's and Oto Melara's debts, Finmeccanica is expected to seek tight guarantees on future order levels and employment before agreeing to buy the two outright.

## NEWS DIGEST

## Jarvis falls to losses of £1.72m

JARVIS, the construction and property group, incurred a pre-tax loss of £1.72m for the half year ended June 30 and is omitting its interim dividend.

For the same period of the previous year the company returned profits of £71,000 and paid a 0.25p dividend.

Turnover fell to £48m (£51m) and losses per share worked through at 5.5p (earnings 0.3p). The directors said a further loss would be incurred in the second half but added that it would be at a lower level than for the opening six months.

## Bullers warns of receivership

Bullers, the maker of giftware and decorative accessories, is expected to need further new finance next year and is in danger of going into receivership.

The warnings came from directors as they reported pre-tax losses of £2.33m for the 18 months to June 30, compared with losses of £4.77m in the previous 12 months. Turnover was £10.8m (£12.8m).

They said that if the loan from Gamlestad was not converted into convertible pref-

## GR (Holdings) declines 66%

GR (Holdings), which operates Grayshot Hall health centre, deals in property and processes and merchants sheepskins, reported pre-tax profits down 66 per cent from £1.82m to £549,000 in the year to June 30.

After an extraordinary charge of £355,000 attributable losses were £14,900, compared with profits of £413,000.

Earnings per share came out at 1.4p (5.5p). The proposed final dividend is 1.8p (1.75p) for a total of 3.2p (2.15p) which includes a special 25p dividend paid at the interim stage.

## Downiebrae decline continues

The profit decline at Downiebrae Holdings continued in the first half of 1992 with a pre-tax figure of £152,000, against £241,000. The Glasgow-based company said that no immediate improvement was forecast.

Turnover for this maker of pipe flanges and cutter of steel profiles increased to £322,000 (£308,000). Earnings per share were 0.7p (1.07p).

## Morgan Grenfell Equity assets rise

Net asset value of Morgan Grenfell Equity Income Trust stood at 94.15p at end-September. The trust's shares were first listed in November 1991 and the figure compares with 89.7p at end-March 1992.

Available revenue for the year amounted to £922,000, equal to earnings of 3.7p per share. A final dividend of 2.45p makes a 3.45p total.

## BBV posts fall of 19.8% to Pta59bn in third term

By Tom Burns in Madrid

BANCO Bilbao Vizcaya, the Spanish bank, reported a 19.8 per cent fall in third-quarter net income to Pta59bn (£551m) compared with the same period last year due to a sharp drop in extraordinary items. The group showed a slight improvement in its banking business.

The operating margin rose by 3.1 per cent after a 13.8 per cent increase in other ordinary revenue, chiefly fee income. Operating profit was up 4.7 per cent to Pta101bn. At the six-month stage, the operating margin had risen by 2.8 per cent and operating profit by 3.8 per cent.

## Asahi cuts Foster's stake

By Emiko Terazono in Tokyo

ASAHI Breweries, the Japanese beer company, has reduced its stake in Foster's Brewing Group, the Australian brewer, by selling the bulk of its entitlement to a new share issue.

Asahi has sold 89m shares, reducing its stake in Foster's, the world's fourth-largest beer maker, from 20 per cent to 17 per cent.

Foster's is raising some A\$1bn (US\$700m) by issuing two new shares for every five held.

Asahi obtained a 20 per cent stake in the Australian brewer in 1990. It had expressed interest in increasing its stake, but had decided to sell its rights.

The company faces a cash-flow squeeze due to increases in interest payments on bank borrowings and straight bonds.

## CBOT to investigate irregular trades

By Laurie Morse in Chicago

THE CHICAGO Board of Trade has asked federal investigators to look into a series of irregular trades that shook its US Treasury bond futures and options pits, and has acted to ensure the repercussions do not harm exchange customers.

A small and well-respected CBOT clearing firm, Lee B. Stern, a Chicago-based brokerage concern which guaranteed the man who made the huge trades last Thursday, failed to meet a \$9m margin call that evening. Stern is responsible for the man's debts, even though he was not an employee or an associate of the firm.

In an effort to collect the debt, the CBOT barred Stern from doing customer business, transferred existing customer accounts to another member firm, and suspended the memberships of the three principals in the firm: Mr Lee Stern, Mr Daniel Stern, and a former second vice-chairman of the exchange, Mr Les Mouscher.

The CBOT took steps to guarantee the financial integrity of the exchange, a spokesman said, and has not accused Stern of any wrongdoing. Mr Lee Stern was not immediately available for comment. Until his seat was frozen, he was chairman of the CBOT's floor practices committee.

The size of the trades could represent more than \$30m. Floor members say it appears the trades were made by an unauthorised, and as yet unnamed, member.

The trades began shortly before news that the US jobless situation had improved slightly last week, a negative piece of news for bond prices. Within a few minutes the pit purchases reached about 30,000 contracts, a huge amount in a market where trades are more usual in quantities of 50 to 100.

They also hit bond prices, which had begun to slide on the jobless report. The man then ordered pit brokers to sell thousands of bond futures contracts. The action helped drive Treasury prices down to their lowest level of the day.

The Chicago office of the Federal Bureau of Investigation confirmed that it had opened an inquiry on the case at the CBOT's request, as had the US Attorney's office.

## Agreement to save Fokker step closer

DEUTSCHE Aerospace of Germany is near a definitive agreement with the Dutch government that would pull cash-strapped Fokker, the Dutch aircraft maker, out of financial difficulties, AP-DJ reports from Amsterdam.

Sources said over the weekend that all the parties on Friday reached an informal consensus over key terms for the transaction.

The definitive agreement for the takeover is understood to involve DASA paying between £1.35 and £1.40 a share for the 10.6m Fokker shares held by the government, and 3.2m shares it would buy directly from Fokker through a private placement.

There were suggestions in European aerospace industry circles that DASA would end up paying around £1.37, well above Fokker's closing price of £1.15.80 a share on the Amsterdam exchange on Friday.

At that price, the deal would be worth around £1.88bn (£510m); in July, Fokker expected well over £1.1bn.

The Dutch state owns nearly 32 per cent of the bourse-listed Fokker and has around £1.8bn of further exposure to the company via development credits and loan guarantees.

## CONTRACTS &amp; TENDERS

## OPEN TENDER FOR

## AGENTS FOR SECOND TIER ELECTRICITY MARKET

NOC Settlements Limited, a wholly-owned subsidiary of The National Grid Company plc, invites organisations to pre-qualify for providing an agency service comprising collection and processing of data from Second Tier Customer meters.

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NOC Settlements Limited intends to appoint one or more Second Tier Agents to provide a data collection and processing service for all Second Tier Customers for all or part of England and Wales for a period of two or four years from 1st April 1994. The opportunity to tender for this agency is open to any organisation or consortium that can demonstrate appropriate capability and experience. The agent will be required to capture data both electronically and manually from meter equipment at customer sites, to process the data and to transmit the results electronically via a telecommunications network to NOC Settlements Limited.

Organisations interested in tendering for the Second Tier Agency service are required to apply for pre-qualification by submitting a Capability Statement on or before 6th November 1992. Details of the required format for submissions and further information on the role of Second Tier Agent are available from:

Mr C. Seymour  
NOC Settlements Limited  
City Gate  
22 Southwark Bridge Road  
London SE1 9UB Tel: 071-775 3861



## INTERNATIONAL CAPITAL MARKETS

## INTERNATIONAL BONDS

## Borrowing surge hits fortunes of sovereign issues

THE SURGE in borrowing needs of many European countries has caused a sharp reversal of fortune for many sovereign Eurobonds in the secondary market.

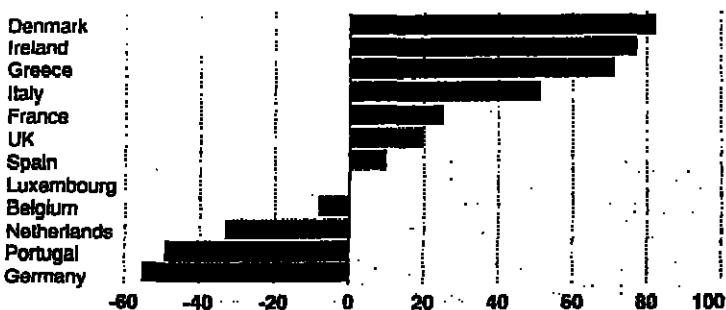
But the widening of sovereign yield spreads in the secondary market may well reflect a change in sentiment engendered by fears of supply, rather than any fundamental changes in creditworthiness.

Some European countries face a sharp increase in immediate borrowing needs in order to repay short-term debts incurred in the foreign exchange market. Heavy intervention in the foreign exchange market in September, in an effort to support their currencies, has also left some countries with severely weakened foreign exchange reserves to be replenished.

The UK, Sweden, Norway, Finland, Denmark, Spain and Italy are among the European sovereign borrowers with increased funding needs. Some of these are also struggling to cope with growing budget deficits caused by shrinking receipts due to economic recession.

But these factors may not be enough to jeopardise the current credit ratings of European sovereign borrowers.

## Net external debt/exports: 1991



Source: Standard &amp; Poor's

"There is a tendency to view exchange rate pressure and domestic economic problems as synonymous with declining credit quality," says Mr Philip Bates, head of Standard & Poor's sovereign risk group. "In many cases, these problems do not directly affect countries' external indebtedness."

The general view that European sovereigns are declining credits is not borne out by a closer look at their creditworthiness, he argues. Mr Bates points out that for foreign currency debt ratings, the

emphasis is on a country's external financial position. Credit analysts must consider to what extent imbalances in the domestic economy are translating into increases in the current account deficit.

In the case of the UK, for example, rumours of a possible downgrade of the country's triple-A rated debt circulated widely last week, ahead of the UK's record DMBn Eurobond. In fact, there was never any question of downgrade, says Mr Bates. "The UK credit rating is not under any kind of threat."

In addition, the UK's public finances are "very strong" and although the budget position has deteriorated, the UK still has "a lot of financial flexibility."

Other countries seeking funds in the international capital markets are actually improving credits. Denmark, after having its debt rating lowered twice in the 1980s, has moved up to a AA+ credit with a stable outlook.

Ireland is another improving credit, having stepped up from A+ to AA-, after reducing its budget deficit. Portugal has improved from A to A+, and Spain is rated AA with a positive outlook, despite worries about the effect on foreign investment of recently imposed capital controls. Sweden, despite its current financial crisis, still has a triple-A rating and has a declining net external debt trend.

The two cases which are of more serious concern are Italy, currently rated AA+ by S&P, where the effectiveness of attempts to control the budget deficit remains questionable, and Finland, which has experienced a surge in net external debt to 150 per cent of exports.

Although spreads of sovereign debt have started to recover

slightly, some debt is still trading at very wide spreads, making further financing more difficult.

For example, the yield spread of Finland's FFrbm issue due 2003 has widened from 41 basis points over the curve in July to 100 basis points. For Finland, and also for Sweden, both considering tapping the French market, this is likely to boost the cost of new issues.

Apart from the D-Mark bond market, the focus of sovereign borrowers' attentions, the French market is considered one of few accessible markets, and sovereign borrowers such as the UK and Denmark are also keeping an eye on the sector.

In the dollar market, Italy's 8% per cent issue due 2001 has widened from 57 basis points over the yield curve in mid-September to 116 basis points, while Norway's 7% per cent issue due 1997 has widened from 44 to 54 basis points over the curve.

From a trader's point of view, steady credit ratings are only part of the equation. Trading performance is affected by investors' perceptions of economic and political risk, even where they have no specific impact on ratings.

Tracy Corrigan

Anthony Harris

## Selsdon Man buried yet again



REMEMBER Selsdon Man? He was the new, bone dry Tory model designed in the 1960s by Sir Keith Joseph, and originally personified by Sir Edward Heath. He ran into a nasty economic recession, and was quietly buried.

Eight years later he was reincarnated, as a woman. Same story. Unexpectedly deep recession, fast the pound, dash for growth, inflation. Finally we got the slimline Major version, whose batteries ran down in less than six months. If this was purely a British story, one might simply conclude that Selsdon Man was a fraud, and leave it there. But there is a significant under-theme. Each time Britain suffered unforeseen recession, or dashed for growth, it did so in good company.

In 1972, nearly all developed countries were on the same track: in the mid-1980s, most of the English-speaking world; and this time, the highest economies. Naïve people might be comforted to know that our "new" policies are so fashionable. (I suspect that Mr Major thinks like that.)

But any well-trained NCO knows that when you are all crossing a bridge, you must break step. Apparently stable structures can be shaken to bits if everyone moves at the same moment, so that each impact reinforces all the rest. This analogy helps to explain why the recession and the subsequent inflations were so much worse than forecast.

Normally, a large part of the impact of any shift in domestic policy is absorbed overseas, with little effect. Sometimes, indeed, domestic actions seem to have no effect at all, and officials suffer nasty turns when they may even doubt their own existence. (The British treasury is just trying to get over this feeling, and told the House of Commons it could not influence the whole economy only days before it agreed to have a try.) When economies make the same move at the same time, it is another story. The effects of change are not absorbed, but reinforced from abroad, so even

modest actions are liable to have surprising effects.

What our analogy fails to explain is why everyone moves in step in the first place. There is no sergeant yelling "LEFT, left, left-right-left!" But there is fashion; and there is a bureaucracy which loves parade-ground discipline. What the sergeant would call smartness, they call convergence.

In the 1960s these disciplinary measures were to be found in the IMF. They noted that cyclical divergences tended to produce current account deficits in expanding countries and surpluses in sluggish ones. They had to finance imbalances - which was what they were paid to do. However, they decided that divergence was a bad thing, and tried to prevent it; with disastrous success.

In the 1980s it was the fashion for deregulation which produced the destruction in the English-speaking world. Europe might have been largely immune, had it not been for the misguided effort to achieve economic convergence. This was meant to open the road to monetary union, but what it has achieved, quite predictably, is convergent deflation and monetary disunion. Meanwhile, the US is showing that monetary union without convergence works much better; some states in the US are in slump, with others booming.

Will the third act in this tragedy end like the first two, in overheating and inflation? There is reason to hope that it won't, though not through good management. The slump in banking confidence is so deep that fiscal stimulus may work only haltingly, or better yet, it may work in some countries but not in others. Some officials will be unable to carry out misguided orders because others, the prudential supervisors of the banks and thrifts, failed in theirs.

A final irony: all this nonsense has been perpetrated in the name of trusting the markets. Yet in the event our rulers have trusted markets which are inherently unstable, and need supervision, while they only fitfully trust markets which are in the end self-stabilising. If Selsdon man had a sense of humour (doubtful, this) he must be laughing in his grave.

## NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
<b>US DOLLARS</b>							
Toshiba Co. (Jpn)	280	1997	5	2.5	100	Nomura Int.	-
JP Morgan & Co. (Jpn)	150	2002	10	(a)	99.625	JP Morgan Secs.	-
Kiesel Pharmaceutical (Jpn)	100	1998	4	1.5	100	Dalwa Europe	-
VVP Holdings Corp.	70	1997	5	8	98.57	Santander Inv.Bk	9.345
Daejeon Electronics Co. (Krs)	50	2007	15.08	3.5	100	Nikko Europe	-
Kingdom of Denmark	30	1995	9	5.25	100	Goldman Sachs Int.	4.851
CS Holding Fin. (Nls)	500	2002	10	4.875	100	CSFB	-
Cement (Nls)	250	1999	7	10	95.86	Citicorp Inv.Bank	10.860
World Bank (Jpn)	100	2002	10	(a)	99.5	Kidder, Peabody Int.	-
Banco Crediteanco (P)	50	1995	2.58	10.5	98.92	Chartered WestLB	10.977
CECC	200	1995	5	5.25	101.0375	Paribas Cap.Mkts	4.870
ABB Int.Finance	200	1995	3	5.375	101	CSFB	5.008
European Inv.Bank (J)	100	2002	10	(f)	99.25	Kidder, Peabody	-
<b>D-MARKS</b>							
United Kingdom	6.5bn	1997	5	7.125	101.71	Deutsche Bank	8.711
Nissan Co. (Jpn)	50	1995	4	3.825	100	Nomura Bk(Dutch)	-
Republic of Ireland (S)	200	2002	10	-	-	Dresdner Bank	-
<b>STERLING</b>							
Chatterham & Gloucester (J)	100	-	-	11.75	100.982	Salomon Bros.Int.	11.838
First 11 (J)	170	2009	17	(a)	100	Baring Bros & Co.	-
Yorkshire Bldg Society (J)	25	2002	30	(a)	99.389	Baring Bros & Co.	-
<b>FRANCH FRANCES</b>							
Credit Foncier de Fr. (J)	1.5bn	2002	9.25	8.825	98.37	Société Générale	8.890
Alcatel Alsthom	1.5bn	1999	7	8.75	100.27	Société Générale	8.937
Electricité de France (J)	1bn	2002	10.06	0	44.17	CCF	8.441
Soc. Gen. Acceptance (J)	400	2000	8	0	100	Société Générale	-
BHF	1.5bn	1997	5	8.825	101.164	BNP Cap.Mkts	8.531
LVNH	1bn	1995	4	9	101.45	Credit Lyonnais	8.557
<b>CANADIAN DOLLARS</b>							
European Inv.Bank	200	1999	6.25	7.25	100.55	Hambros Bank	7.110
<b>DANISH KRONER</b>							
Finance for Danish Industry	300	1997	5	9.25	101.875	Unitbank	8.771

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
<b>SWISS FRANCES</b>							
Canon Sales Co. (Jpn)	350	1998	4	2.5	100	BSI	-
Toshiba Printing Co. (Jpn)	80	1995	4	2.5	100	Nikko Bk(Swiz)	-
Toshiba Co. (Jpn)	80	1995	4	2.5	100	Nomura Bk(Swiz)	-
Tos Corp. (Jpn)	80	1995	4	2.5	100	Nikko Bk(Swiz)	-
France Telecom	150	1997	5	8.25	100.5	Swiss Bank Corp.	5.882
European Inv.Bank	500	2000	8	6.25	102.25	Swiss Bank Corp.	5.889
Kommuninvest 1 Orebro Lan	150	1997	5	8.5	101	Grüdt Suisse	6.013
Kelheim Elec.Railways (Jpn)	100	1995	4	2.5	100	Nikko Bk(Swiz)	-
Chugoku M.Fin. (Jpn)	70	1998	4	2.5	100	Chilbank (Swiz)	-
Ag Aljazeera Corp. (Jpn)	10	1997	5	6.825	101.125	KDB (Swiz)	6.855
Land Steiermark	150	2002	10	6.25	101.75	Wirtschaftsbank Privatbank	6.012
AmBank Co.	12	1997	5	6.825	99.825	Sauwa Bk(Swiz)	6.716
City of Vienna	200	2005	10	6.25	102.25	Wirtschaftsbank Privatbank	5.945
Kansai Supermarket (Jpn)	80	1998	4	2.5	100	Yamachi Bk(Swiz)	-
<b>LUXEMBOURG FRANCES</b>							
Caisses Centrales Desjardins	1.5bn	2002	10	6.5	102.25	Credit Europeen	6.182
BNP (Luxembourg)	1bn	2002	10	6.375	102.15	Croquet Int.Bank	6.054
Arbed	1.5bn	1997	5	8.825	101.25	BGL	8.309
IGB Deutsche Industriebank	30n	2003	10	8.5	102.125	Paribas Lux.	8.181
Bayerische Vereinsbank Int.	1bn	2002	10	8.125	102.2	Kredietbank	7.800
Credit Agricole d'Ile de Fr.	1bn	2002	9.58	8.125	101.85	BIL	7.832
Credit Agricole Nord-Est	600	2002	10	8.25	102.375	Croquet Int.Bank	7.800
Croquet Int.Bank	300	1995	5	8.125	102.125	Croquet Int.Bank	7.311

**Mazagon Dock Limited**  
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- Bulb plates and sections - LRA Grade : 1,140
- Structural steel plates (Various sizes and specifications) : 2,300
- Steel tubulars/SAW pipes of assorted sizes : 11,000

Tenderers may quote for one or more of the above four categories. Tender documents containing all details will be available between Nov. 1, 1992 and Nov. 30, 1992 on payment of non-refundable tender fee of US \$50 through banker's cheque drawn in favour of MDL, Bombay. For all further details, contact following authorities:

G.N. Shenoy  
JM (O-DC), MDL, Bombay  
Fax: 91 (22) 3719767  
91 (22) 3758627

V.S. Borde  
RM, RLO, Indian High Commission  
London WC 2B 4NA  
Fax: 44 (71) 3799456

The final date of receipt for tender documents will be 1430 hrs IST on Dec. 14, 1992. MDL reserves the right to accept or reject any or all offers without assigning any reasons thereof.

**KRUPP GROUPE MOULINEX**

**First half-year results 1992**

The result at the end of June was affected by the weak worldwide economy and for the first time incorporates the total costs of the Krupp acquisition which took place in two stages in January and July 1991.

Consolidated results (in millions of French francs)	June 1992	June 1991
consolidated turnover	3,997	3,668
operating result	171	213
financial charges	(141)	(128)
result before tax	30	85
net result after tax	(11)	35

While applying strict short-term management control, the Group actively pursues the development of activities which, when the time comes, will enable it to benefit quickly from any turnaround.

To take full advantage of the industrial facilities in different monetary zones, the projected investments are fully maintained in Ireland, Great Britain, Italy, Egypt, Spain (a new factory) as well as in Mexico which manufactures for the North American market.

The research costs linked to these developments which aim to ensure the future and the introduction of new products, are for the first time recorded as intangible assets amounting to FF 46 million on June 30.

This notice is issued in compliance with the requirements of the London Stock Exchange. It does not constitute an offer or invitation to any person to subscribe for or to purchase any shares. Application has been made to the London Stock Exchange for the Ordinary Shares, issued and to be issued, to be admitted to the Official List. It is expected that such admission will become effective and that dealings will commence on Friday 30 October 1992.

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at 165p per share payable in full on application

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Amount authorised	Amount issued and fully paid	Number of shares authorised	Number of shares issued and fully paid
£4,500,000	£3,081,005.75	in ordinary shares of 5p each	90,000,000
			61,620,115

Arrangements have been made by Barclays de Zoeete Wedd Limited and Cazenove & Co. (the sponsoring member firm) for the above 19,151,715 Ordinary Shares to be placed with clients of Cazenove & Co. Of these, 12,151,715 Ordinary Shares are being placed firm and 7,000,000 Ordinary Shares are being placed subject to clawback by Intermediaries and Preferential Applicants.

Members of the public or institutions wishing to apply for shares in the Intermediaries Offer must do so through Intermediaries, who must be member firms of the London Stock Exchange. The application list for the Intermediaries Offer will be closed at 10.00 am on Wednesday 28 October 1992 (or such later time as BZW may decide). Intermediaries may obtain Intermediaries' Application Forms only from Cazenove & Co. at the address below.

Copies of the Prospectus (which comprises listing particulars relating to the Company) may be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 6 November 1992 from:

Barclays de Zoeete Wedd Limited  
Elbogie House  
2 Swan Lane  
London EC4

Cazenove & Co.  
12 Tokenhouse Yard  
London EC2

Dorling Kindersley Holdings plc  
9 Henrietta Street  
Covent Garden  
London WC2

and during normal business hours on Monday 26 and Tuesday 27 October 1992, for collection only, from the Company's Administrative Office, London Stock Exchange Tower, Capital Court entrance, off Bartholomew Lane, London EC2. The Prospectus is also included in the Company Fiche Service available from Exel Financial Limited, 37-45 Paul Street, London EC2.

26 October 1992

**INTERMEDIARIES OFFER CLOSING WEDNESDAY 28 OCTOBER**

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US\$150,000,000  
Floating rate notes 1994

Notice is hereby given that the rate of interest relating to the above issue has been fixed at 5.25 per cent for the period 26 October 1992 to 26 January 1993.

Interest accrued for the above period and payable on 26 April 1993 will amount to US\$134.17 per US\$10,000 note and US\$3,354.17 per US\$250,000 note.

Agent: Morgan Guaranty Trust Company  
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**NOTICE OF REDEMPTION**  
**MORTGAGE SECURITIES (NO.3) PLC**  
£117,000,000 Multi-Class Mortgage Backed Floating Rate Notes due 2035

Notice is hereby given that, pursuant to Condition 5(c) of the Notes, the issuer shall redeem:

29,009.00 per Class A1 Note  
20.00 per Class A2 Note  
20.00 per Class A3 Note

on the next Interest Payment Date, being October 30, 1992.

**MORTGAGE SECURITIES (NO. 3) PLC**  
Dated: October 26, 1992

**U.S. \$75,000,000 SWEDBANK**  
(Spartanbankernas Bank)  
Subordinated Floating Rate Notes due 1997

Notice is hereby given that for the three months interest period from October 26, 1992 to January 26, 1993 the Notes will carry an interest rate of 8% per annum. The interest payable on the relevant interest payment date, January 26, 1993 will be U.S. \$2,300.00 and U.S. \$58.50 respectively for Notes in denominations of U.S. \$250,000 and U.S. \$10,000. The sum of U.S. \$58.50 will be payable per U.S. \$10,000 principal amount of Registered Notes.

By: The Chase Manhattan Bank, N.A., London, Agent Bank  
October 26, 1992

**THE REPUBLIC OF ARGENTINA**  
NEW MONEY BOND DUE 1999

NOTICE IS HEREBY GIVEN FOR THE INTEREST PERIOD BEGINNING ON OCTOBER 26TH 1992 AND ENDING ON APRIL 26TH 1993. THE BOND WILL CARRY AN INTEREST RATE OF 4 7/16% PER ANNUM.

**BANCO CENTRAL DE LA REPUBLICA ARGENTINA**  
REPUBLIC OF ARGENTINA FINANCIAL AGENT

**Nationwide**  
£80,000,000  
Subordinated Floating Rate Notes due July 1998

For the three months 21st October, 1992 to 21st January, 1993 the Notes will carry an interest rate of 8 1/4% per annum with a coupon amount of GBP 206.37 per GBP 10,000 Note, payable on 21st January, 1993.

Nationwide Building Society  
The National Westminster Bank plc  
London, the London Stock Exchange

Bankers Trust Company, London Agent Bank

**NOTICE OF REDEMPTION**  
**MORTGAGE SECURITIES (NO.3) PLC**  
£117,000,000 Multi-Class Mortgage Backed Floating Rate Notes due 2035

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20.00 per Class A2 Note  
20.00 per Class A3 Note

on the next Interest Payment Date, being October 30, 1992.

**MORTGAGE SECURITIES (NO. 3) PLC**  
Dated: October 26, 1992

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## INTERNATIONAL CAPITAL MARKETS

## UK GILTS

## Attention focuses on change to PSBR rules

THE UK gilts market continued to gain ground amid expectations that lower interest rates are likely in Britain over the next few months.

With the government's economic policy still the subject of some confusion, many market participants feel that a move down from the current level of base rates is unlikely to spur inflation in the short-term, a development that helped long-dated gilts to share in the price rises of shorter-dated stock.

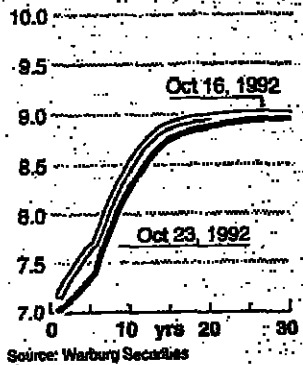
As few indicators emerge of any early end to the recession, attention focused on possible changes to the rules for financing the public sector borrowing requirement which Mr Norman Lamont, chancellor of the exchequer, may address this week.

Because economic activity in Britain over the next year or so seems likely to be weak, there is little prospect that the PSBR will come down quickly from the figure expected for the 1993-94 financial year of about £40bn.

That may put extra pressure on the Bank of England to find new ways to finance the PSBR.

## UK gilts yield

Rebased at par (%)



Source: Warburg Securities

through, for example, innovative funding techniques which some believe Mr Lamont may announce in his Mansion House speech to representatives of the City of London on Thursday.

While last week the government held off from signalling a further cut in base rates, now at 8 per cent, many participants expect overall borrowing conditions to ease significantly by the end of the year in the wake of the new recognition in Whitehall that the recession appears to be deepening.

Short-dated gilts rose by nearly 2 points as a result of this expectation, with the benchmark 8.75 per cent stock due in 1997 yielding 7.22 per cent on Friday night, about 40 basis points down on the week.

Against expectations by some in the market that price gains for short-dated gilts would force up yields at the long end of the yield curve, long-dated securities also saw a rise in price of up to 1.5 points.

The Treasury 9 per cent stock maturing in 2008 saw a yield at the end of the week of 8.81 per cent, roughly 16 basis points less than on the Friday night of the week before.

With the level of sterling not giving market participants any real cause for concern, there is also the feeling in the financial community that the Bundesbank will cut its main interest rates over the next month or so as the German economy slows. Indications were provided by the German central bank last week, when it engineered a reduction in a key money market rate by 15 basis points.

In this environment, especially given a new emphasis on speeding up growth by Mr John Major, the prime minister, there seems little to stop base rates coming down to 6 per cent by Christmas.

Changes of this sort should boost company profits and influence more of a switch of funds to equities from gilts. At the same time, however, many fund managers appear to want to keep relatively large amounts of cash tied up in gilts and other government bonds on the grounds that the apparent lack of inflationary pressures on the horizon make these instruments a reasonable medium-term bet.

As for the Mansion House speech, Mr Lamont desperately needs to increase his credibility in the City. The odds will be on him to come up with something in his address that throws fresh light on how he proposes to manage economic policy in the next six months - assuming the chancellor manages to survive that long after his less-than-sparkling performance since the summer. He may discuss ways of making it easier to fund the PSBR by courting towards this gilts sold to building societies and banks. Such institutions are at liberty to buy the securities - they are expected to purchase about £5bn worth this financial year - but the purchases do not count towards funding as this would represent an over-allowance of policy that could be inflationary.

But as Mr Nigel Richardson, a bond expert at S.G. Warburg Securities, points out, in the current environment in which deflationary risks appear stronger than any threat from inflation, the move towards a different funding policy might appear to have some logic.

Assuming a PSBR next year of around £40bn, the government might have to be faced with selling £30bn worth of gilts a month to ensure it has enough cash for public spending. While most of the funding needs for this year appear to be met, the Bank of England announced on Friday a new £1bn tranche of gilts to be sold from today which may help towards funding next year's borrowing requirement.

The gilts are in the form of a new type of stock, 7.25 per cent due in 1998. The price will be 99.50, payable 25 per cent down and 74.5 per cent in January next year. The Bank also announced the Treasury would redeem at par all the 9 per cent Treasury loan 1992-1996 on January 28 next year for cash.

Peter Marsh

## US MONEY AND CREDIT

## Retail investors are caught between politics and reality

INVESTORS in the US Treasury bond market, many of whom are nervous about the impact of fiscal stimuli being promised by Governor Bill Clinton to get the US economy moving again, appear to be coming round to the gradual realisation that there may yet be life after election day.

Not everyone is sanguine, of course, and traditional retail buyers of Treasury paper seem likely to remain on the sidelines until after the presidential election a week from tomorrow.

These smaller players in the market simply may not have the stomach - or sufficient information - to speculate about interest rates in the closing stages of the presidential campaign.

Retail investors were reported to have sold heavily in the early part of last week, and on Friday wariness continued as the benchmark 30-year Treasury issue declined by 1/8 in light trading. This brought the bond's total loss for the week to 1 1/2, raising its yield to 7.63 per cent, the highest since last July.

Bond market participants have instead begun to form a more jaundiced view of the gap between Mr Clinton's political campaign rhetoric about jump-starting the economy with federal spending programmes and the likely reality that a Clinton administration would not

translate instantly into higher budget deficits and higher inflation.

Analysts at Salomon Brothers, for example, note the protestations from Clinton's close advisers that - contrary to what the market thinks - their candidate has no plans for immediate fiscal stimulus.

But Salomon also notes that these reassurances have failed to quell market concerns and that ultimately bond prices will remain vulnerable until any potential shift in fiscal policy is clarified by a future President Clinton.

Mr Phillip Braverman, chief economist at DKB Securities in New York, says rather more directly that a Clinton presidency would be "fundamentally an exercise in red ink", in dismissing concerns that a Clinton administration would go on a spending spree, Mr Braverman stresses Mr Clinton is focusing on ways to increase spending without increasing the deficit.

The market is also forgetting the public service performed by Mr Ross Perot - he has made concern over the deficit a national issue and this will make it more difficult for both Congress and the next president to avoid the need to attack the deficit during the next four years.

In addition, the latest report from Donaldson, Lufkin and Jenrette, the securities house,

warns that the US federal budget deficit is likely to remain relatively high for years to come no matter who is elected.

Nor will the election stop the Federal Reserve from a further easing of monetary policy if, as expected, the next round of macro-economic statistics shows the US economy is still extremely sluggish.

Tomorrow, for example, the commerce department will issue a report on third-quarter growth in gross domestic product; the consensus is for a fairly anaemic 1.4 per cent to 1.6 per cent. Then the conference board will release the consumer confidence index for October, which could be down further from 53 per cent in August and 56.4 per cent in September.

On Wednesday, the commerce department will release durable goods data for September, also likely to be weak.

These statistics might be expected to boost bond prices, were it not for political uncertainty and the weight of more Treasury paper coming to market, with auctions of \$15bn of two-year maturities and \$10.75bn of five-year paper.

The most important new economic data likely to be reviewed by the Fed will, however, come after the election when October unemployment data is released.

Alan Friedman

## JAPANESE BONDS

## Hopes rise of cut in interest rates

THE Japanese government bond market is poised for monetary easing by the Bank of Japan, with the yield on the No 145 10-year benchmark fluctuating around the 4.8 per cent level.

The fall in money market rates, due to funding operations by the central bank, encouraged hopes of an imminent cut in the official discount rate and the overnight call rate fell to 4 per cent, the lowest since February 1989.

While lower short-term rates have supported government bonds, market participants have remained cautious about a fully-fledged rally because of concern over higher long-term rates in the US.

Long-term yields were affected by the rise in US long-term interest rates, as investors remained uncertain about the effects a Democratic victory in the US would have on global interest rates.

However, further indications of a weaker economy have provided underlying support for the bond market, with economic figures indicating a further downturn increasing pressure on the Bank of Japan to ease rates.

Money supply growth for September announced last week, fell 0.4 per cent from the previous year, its first decline on record, prompting Mr Kiichi Miyazawa, the prime minister, to call for lower money market rates.

An increase in bankruptcies and lower consumption figures have also added to the gloom. Interim earnings announcements by leading retailers have pointed to a sharp fall in consumer confidence, as sales and profits at most department stores posted double digit declines.

In addition, a survey by the Economic Planning Agency (EPA) indicated that capital

spending by corporations will fall 3.3 per cent for this fiscal year to March. The EPA said cutbacks on capital investment by manufacturers are especially severe, with a 10.3 per cent decline.

The Bank of Japan's projection for zero money supply growth for the current quarter, however, may cool some hopes of monetary easing. Mr Robert Feldman, economist at Salomon Brothers in Tokyo, said the figure indicated there would not be a cut in the official discount rate this year.

The central bank predicted a gradual recovery in the economy, while Mr Kagehide Kaku, head of the bank's research and statistics department, denied the possibility of an imminent rate cut.

The turmoil within the ruling Liberal Democratic Party, however, has hardly affected the country's financial markets. Some investors fear the

opposition parties may try to delay the approval of the supplementary budget in parliament by calling for Mr Shin Kanemaru, of the Liberal Democratic Party, to testify as a witness over his violation of the Political Funds Control Law.

However, a long delay is regarded as unlikely because of the criticism that is expected to arise if the opposition parties were to delay the fiscal support package.

The bond market is now focusing on decisions over something in his address that throws fresh light on how he proposes to manage economic policy in the next six months - assuming the chancellor manages to survive that long after his less-than-sparkling performance since the summer. He may discuss ways of making it easier to fund the PSBR by courting towards this gilts sold to building societies and banks. Such institutions are at liberty to buy the securities - they are expected to purchase about £5bn worth this financial year - but the purchases do not count towards funding as this would represent an over-allowance of policy that could be inflationary.

Concerns of over-supply, however, may temporarily depress the long-term bond market, as the government is expected to auction 20-year bonds worth some ¥300bn.

Emiko Terazono

FT/ISMA INTERNATIONAL BOND SERVICE									
Country	Issue	Par	Yield	Price	Change	Country	Issue	Par	Yield
USA	10/28/92	100	7.63	99.50	-0.12	USA	10/28/92	100	7.63
USA	11/15/92	100	7.63	99.50	-0.12	USA	11/15/92	100	7.63
USA	12/15/92	100	7.63	99.50	-0.12	USA	12/15/92	100	7.63
USA	1/15/93	100	7.63	99.50	-0.12	USA	1/15/93	100	7.63
USA	2/15/93	100	7.63	99.50	-0.12	USA	2/15/93	100	7.63
USA	3/15/93	100	7.63	99.50	-0.12	USA	3/15/93	100	7.63
USA	4/15/93	100	7.63	99.50	-0.12	USA	4/15/93	100	7.63
USA	5/15/93	100	7.63	99.50	-0.12	USA	5/15/93	100	7.63
USA	6/15/93	100	7.63	99.50	-0.12	USA	6/15/93	100	7.63
USA	7/15/93	100	7.63	99.50	-0.12	USA	7/15/93	100	7.63
USA	8/15/93	100	7.63	99.50	-0.12	USA	8/15/93	100	7.63
USA	9/15/93	100	7.63	99.50	-0.12	USA	9/15/93	100	7.63
USA	10/15/93	100	7.63	99.50	-0.12	USA	10/15/93	100	7.63
USA	11/15/93	100	7.63	99.50	-0.12	USA	11/15/93	100	7.63
USA	12/15/93	100	7.63	99.50	-0.12	USA	12/15/93	100	7.63
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USA	2/15/94	100	7.63	99.50	-0.12	USA	2/15/94	100	7.63
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USA	8/15/94	100	7.63	99.50	-0.12	USA	8/15/94	100	7.63
USA	9/15/94	100	7.63	99.50	-0.12	USA	9/15/94	100	7.63
USA	10/15/94	100	7.63	99.50	-0.12	USA	10/15/94	100	7.63
USA	11/15/94	100	7.63	99.50	-0.12	USA	11/15/94	100	7.63
USA	12/15/94	100	7.63	99.50	-0.12	USA	12/15/94	100	7.63
USA	1/15/95	100	7.63	99.50	-0.12	USA	1/15/95	100	7.63
USA	2/15/95	100	7.63	99.50	-0.12	USA	2/15/95	100	7.63
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USA	1/15/96	100	7.63	99.50	-0.12	USA	1/15/96	100	7.63
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USA	6/15/03	100	7.63	99.50	-0.12	USA	6/15/03	100	7.63
USA	7/15/03	100	7.63	99.50	-0.12	USA	7/15/03	100	7.63
USA	8/15/03	100	7.63	99.50	-0.12	USA	8/15/03	100	7.63
USA	9/15/03	100	7.63	99.50					



## ECONOMICS

## French joblessness rises

THE French government may ponder the disadvantages of high interest rates this week when unemployment figures for September are released. The jobless total may have fallen in July and August, taking the rate of unemployment to 10.3 per cent, but unemployment is still on an upward trend and is forecast to have risen again last month.

There are few economic statistics in the UK but the Confederation of British Industry produces its quarterly industrial trends survey and the chancellor delivers the annual Mansion House speech.

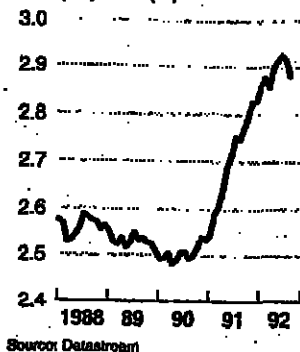
This will be particularly important this year as Mr Norman Lamont is expected to clarify the government's new economic policy, details of which have been somewhat hazy ever since the prime minister declared that he was "going for growth".

Monday: US, Sept existing home sales, Sept Treasury budget (up \$6.6bn); Australia, Sept motor vehicle registrations (up 1.9 per cent).

Tuesday: UK, Sept Confederation of British Industry industrial trends survey; Germany, Autumn report of the five major economic research institutions on the German economy; US, advance figures for third quarter GDP (up 1.6 per cent), third quarter GDP deflator (up 2.5 per cent), Oct consumer confidence (66.0), Oct Johnson Redbook; Canada, August employment earnings (up 3.1 per cent on year); Japan, Sept

## France

## Unemployment (m)



Source: Datastream

retail sales (down 4.4 per cent on year), Sept industrial production (up 4 per cent), Bank of Japan bank managers' meeting until Oct 28.

Wednesday: US, Sept durable goods orders (up 0.5 per cent), Sept personal income (up 0.5 per cent); Canada, industrial production index (up 0.4 per cent), Sept raw material prices (up 0.5 per cent); Australia, third quarter consumer prices index (up 0.5 per cent on quarter, up 1.1 per cent on year); Switzerland, Swiss National Bank autumn press conference.

Thursday: UK, Chancellor presents Mansion House speech; US, initial claims week ending Oct 17 (380,000), state benefits week ending Oct 10, Sept export price index, Sept import price index, third quarter export and import price indices, money supply data for

week ending Oct 19; Japan, Bank of Japan governor Mieno holds press conference.

Friday: France, Sept unemployment rate (10.3 per cent); US, Oct Michigan sentiment, Oct Chicago NAPM, Sept new home sales (590,000), Oct agriculture prices, Sept bank credit; Canada, August real GDP at factor cost (up 0.2 per cent), August building permits (up 1 per cent); Australia, Sept current account (\$A1.7bn deficit); Japan, Sept unemployment rate, Sept construction orders, Sept housing starts, Sept construction starts, Oct consumer prices index - Tokyo (up 1.5 per cent on year), excluding perishables (up 2.4 per cent on year), nation (up 2 per cent on year), ex perishables (up 2.2 per cent on year), Diet sessions are convened.

During the week: Germany, Sept import prices (down 0.4 per cent on month, down 4.8 per cent on year), Oct cost of living for Baden-Württemberg, Hesse, Bavaria, Northrhine-Westphalia, preliminary Oct cost of living (up 0.3 per cent on month, up 3.6 per cent on year); Finland, August monthly GDP; Norway, Oct unemployment rate; Belgium, Oct CPI (up 2.4 per cent on year); Italy, Sept balance of payments (1.7 trillion deficit), Sept trade balance (1.34 trillion deficit), Sept cumulative PSBR (104.9 trillion); Spain, government budget; Japan, wholesale prices index second 10 days Oct.

## RESULTS DUE

WELLCOME, the UK pharmaceuticals group, reports its full-year results on Wednesday. Few surprises are expected and pre-tax profits of between £500m and £550m are forecast (2002.9m last year).

Sales of Zovirax, its herpes, shingles and chicken pox treatment, should have topped £500m for the year, putting it in the world's top 10 selling drugs for the first time.

Sales of Retrovir, the anti-HIV treatment also known as AZT, will have risen about 19 per cent for the full year to about £100m.

Wellcome's margins will also be under scrutiny. The new management has undertaken to increase margins to 30 per cent by 1996. Analysts believe they should improve 24 per cent points to about 27 per cent this year.

Imperial Chemical Industries, Britain's biggest manufacturer, announces its third quarter results on Thursday. They will be watched even more carefully than usual because of the proposed split of the company next year into

two separate groups. Pre-tax profits are likely to be grim, at around £100m compared with £196m last year.

Most analysts' predictions for next year are based on an upturn in the cycle. A gloomy forecast from Sir Denis Henderson, chairman, is likely to lead to further downgrades.

In addition, attention will be given to the fortunes of Tenormin, a heart treatment whose US patents expired in September last year.

Marks and Spencer, which single-handedly accounts for some 30 per cent of the market capitalisation of the stores sector, is likely to make some encouraging noises about its trading prospects when it reports its interim results on Wednesday.

Against a background of ambivalent signals about the state of consumer spending, M and S's views will be seen as being of critical importance in gauging sentiment towards the sector.

Stringent cost control measures will have enabled the company to lift pre-tax profits

by as much as 16 per cent to £250m. The company's aggressive "Outstanding Autumn Value" advertising campaign is also likely to add to its confidence.

However, M and S's food business, which accounts for 40 per cent of sales, will have continued to face severe competitive pressures. Analysts will be particularly interested to hear of any new initiatives in this field.

Blenheim Group, the exhibitions manager, is expected to announce pre-tax profits of about £34m for the year to 31 August when it announces second interim results tomorrow. Analysts will be watching for signs Blenheim's recent rapid rise is slowing, and for the trading outlook in its important French market.

Reed International, the publishing group, reports interim results on Wednesday. Pre-tax profits of about £22m (£28.3m) are forecast.

The market will also be eager for more details on its proposed merger with Elsevier of the Netherlands.

## UK COMPANIES

## TODAY

COMPANY MEETINGS:  
Arcadian Int., 200 Aldersgate Street, EC1, 1.00.

OT Japan Inv. Trust, 8th Floor, 8 Devonshire Sq., EC1, 12.30.

Saville Gordon (A), 75 Harborne Road, Birmingham, 11.00.

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Finals:  
Int. Media Comms.  
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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES AND MONEY MARKETS

## \$ waiting to soar

THE DOLLAR is likely to trade in an uncertain manner against the D-Mark between now and the US Presidential election on November 3, writes James Bilz

UK clearing bank base lending rate 8 per cent from October 16, 1992

The markets are assuming that Mr. Clinton will win the election, and many analysts expect the dollar to soar in the aftermath of that victory. They argue that Mr. Clinton's commitment to increase public spending will check the US Federal Reserve's policy of cutting interest rates. The expected easing of German policy will also narrow the differential between US and German rates that has driven the market this year.

The dollar's rise to a high of DM1.5068 in European trading on Friday was proof that this is how dealers are thinking. But this week, several US economic indicators may check the

market's ebullience, reminding traders that the US economic upturn is a slow one. Mr. Neil MacKinnon, chief economist at Citibank in London, believes that the figure for third quarter GDP in the US, due out on Tuesday, may show quarter-to-quarter growth below one per cent.

He also believes that consumer confidence figures due out on Tuesday on Friday will disappoint the market. Dealers will again focus on the fortnightly Bundesbank council on Thursday. In the run-up to the last two council meetings, the market has got very excited about the prospect of a cut in official rates, only to show huge disappointment when the cut fails to come. In the UK, the main event in the week will be the chancellor's keynote speech at the Mansion House on Thursday. The government has put a new emphasis on cutting rates and "going for growth". But the speech will be analysed carefully for further hints on how this is to be achieved.

## CURRENCY MOVEMENTS

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## STERLING INDEX

Oct 23	Close	Previous	Change
9.30 am	80.7	80.7	
10.00 am	80.7	80.7	
11.00 am	80.7	80.7	
12.00 pm	80.7	80.7	
1.00 pm	80.7	80.7	
2.00 pm	80.7	80.7	
3.00 pm	80.7	80.7	
4.00 pm	80.7	80.7	

Forward premiums and discounts apply to the US dollar

## OTHER CURRENCIES

Oct 23	Close	Previous	Change
Argentina	1.6250-1.6250	1.6250	
Australia	1.6250-1.6250	1.6250	
Canada	1.6250-1.6250	1.6250	
France	1.6250-1.6250	1.6250	
Germany	1.6250-1.6250	1.6250	
Italy	1.6250-1.6250	1.6250	
Japan	1.6250-1.6250	1.6250	
South Africa	1.6250-1.6250	1.6250	
Switzerland	1.6250-1.6250	1.6250	
UK	1.6250-1.6250	1.6250	
US	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## CHICAGO

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## U.S. TREASURY BILLS (90)

Oct 23	Close	Previous	Change
90-day	1.6250-1.6250	1.6250	
180-day	1.6250-1.6250	1.6250	
270-day	1.6250-1.6250	1.6250	
360-day	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

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Forward premiums and discounts apply to the US dollar

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360-day	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## POUND SPOT - FORWARD AGAINST THE POUND

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## EXCHANGE CROSS RATES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## EURO CURRENCY INTEREST RATES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## FT LONDON INTERBANK FIXING

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## MONEY RATES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## LONDON MONEY RATES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## FT-ACTUARIES WORLD INDICES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## LONDON RECENT ISSUES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## FIXED INTEREST STOCKS

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## RIGHTS OFFERS

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## BANK OF ENGLAND TREASURY BILL TENDER

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## WEEKLY CHANGE IN WORLD INTEREST RATES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## STOCK INDICES

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## LONDON SHARE SERVICE

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## BRITISH FUNDS

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## BRITISH FUNDS - Cont.

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## MONEY MARKET FUNDS

## Money Market Trust Funds

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## Money Market Bank Accounts

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	
6 months	1.6250-1.6250	1.6250	
12 months	1.6250-1.6250	1.6250	
Forward	1.6250-1.6250	1.6250	

Forward premiums and discounts apply to the US dollar

## OTHER FIXED INTEREST

Oct 23	Close	Previous	Change
US\$	1.6250-1.6250	1.6250	
1 month	1.6250-1.6250	1.6250	
3 months	1.6250-1.6250	1.6250	</



## INVESTMENT TRUSTS - CONT.

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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

**Continued on next page**



4 pm close October 2

[illegible]

**4 pm close October 23**

[illegible]

SECRET



## MONDAY INTERVIEW

## Voice of high-tech challenge

George Fisher, chairman of Motorola, talks to Tony Jackson and Michio Nakamoto

I spend a certain amount of my time, says Mr George Fisher of Motorola, "worrying about US competitiveness."

It seems a curious admission from the chairman of one of the world's great electronics companies, a competitor par excellence against the industrial might of Japan. But Mr Fisher has his reasons. His other preoccupations include US defence spending, the US infrastructure and the need for the US to develop certain critical technologies. These are all matters in which Motorola has an interest. Thus, what is good for the US is good for Motorola.

And, presumably, vice versa, which is why Mr Fisher spends part of his time on Vice-President Dan Quayle's Council on Competitiveness. This puts him squarely in the debate on the role of government in industry, which in the US is a delicate ground. In most other countries, industrial policy is a legitimate topic for discussion. In the US, the phrase has distinctly left-wing overtones.

"Basically, I think taxpayers' money is inappropriately involved in developing pre-competitive technologies or the infrastructure. There is a limit to how much taxpayers' money should be spent, because you do get into the subject of industrial policy, which generally we are not favourable to."

In Germany, he argues, 3.7 per cent of GDP is spent on infrastructure. In Japan, the figure is about 5.6 per cent; in the US about 1 per cent. In the early 1990s, he says, the US was more in line with what Japan does today. "The US has to do a better job."

"And maybe I'm myopic, but when I look at infrastructure investment in computing and communications, that is very much driven by some pretty fundamental technology in semiconductors. That is a legitimate concern of the country. Japan recognises that. Germany recognises that. And when we look at who we compete with in the world, it's largely Japan and Germany."

Given that Motorola's business is in semiconductors and communications, Mr Fisher naturally has strong views on this. A couple of years ago Michael Borkin, chairman of President Bush's Council of Economic Advisers, said he

saw no economic difference between semiconductor chips and potato chips. "I'll argue that to the death," Mr Fisher says. "It's insanity. You only believe that if you want your country to go down the drain."

"It is absolutely clear in my mind that you have to have economic priorities in a country, and that some things are more important than others to future economic growth. High-tech industries tend to be among the economic drivers, and we're competing with countries which recognise that."

"The US doesn't have a comprehensive strategy because it isn't popular in many segments of the US political population to say that computer chips are more important to the economic survival of the US than potato chips. Somebody has to be willing to make those decisions. Just who is a real question, and as you get further into industrial policy the more problematic the question becomes. But I don't think we're even close to that."

And after all, he argues, the US makes these decisions every day. "There are agricultural subsidies, there are protectionist tariffs in the US. People are making those judgments. They need to be made in an organised way, rather than in a *de facto* political way."

Take the 760-odd laboratories which are supported by government funds. "They spend about \$20bn a year, mostly on defence-oriented projects. There need to be agreed priorities on what these laboratories spend their money on, and how they are allowed to interact with private industry. I think the government needs to worry a lot more about the transition from a military foreign policy posture to an economic and commercial posture."

High on the list of priorities is deciding which are the critical technologies that the US needs to develop. But how are these to be defined?

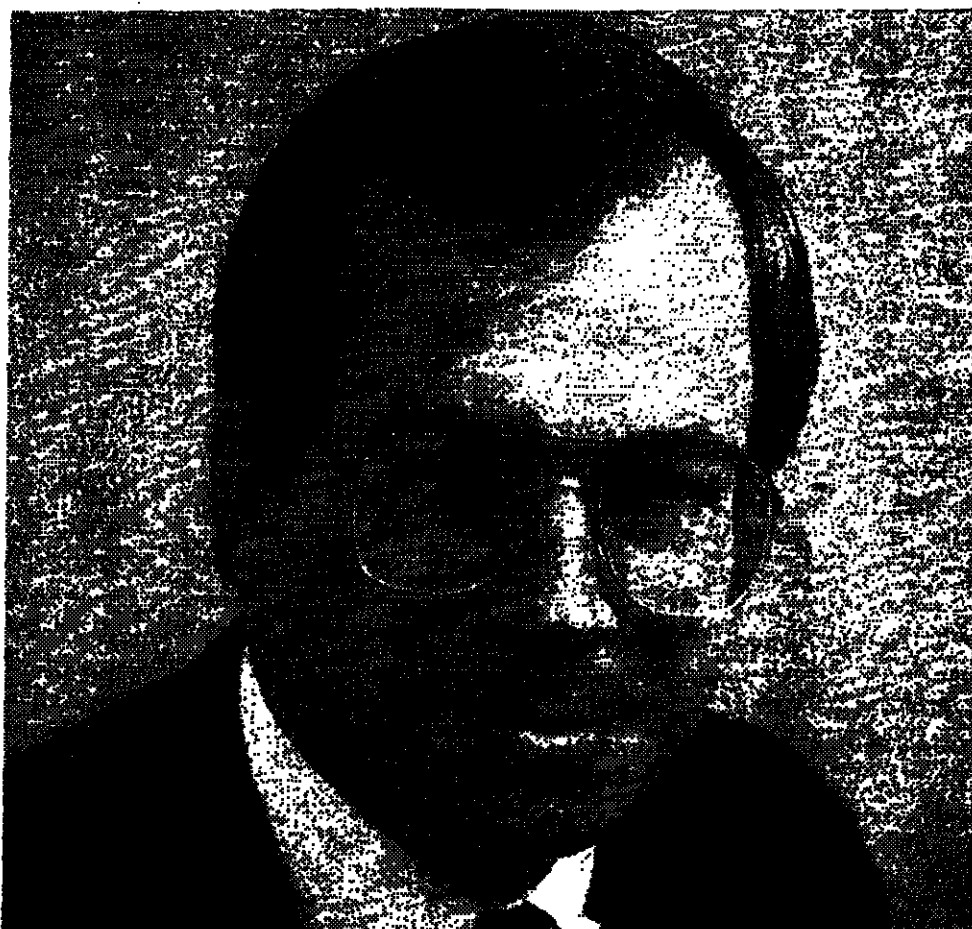
"If I were a country, I would look at which industries were the real growth drivers. I'd look at pharmaceuticals, high-tech electronics, biotechnology, aircraft, design tools, whatever. I'd then ask the experts in those fields what the technologies are which are really fundamental to those industries. Then I'd look across and

ever, no less implausible; it sunk without judicial trace. But the Court of Appeal was kind enough to think that the article was worthy of note.

Justinian's most notable contribution was a decade ago, at the time of the Falklands war. The FT, editorially, stood out from most of the nation thirsting for military engagement with Argentina. The line was that war might have to be contemplated, but that armed conflict should come about only after all possible means of negotiation had been thoroughly canvassed and failed.

Among the canvassed proposals was that the government should accept UN trusteeship of the Falklands. Justinian simultaneously outlined in detail the notion of trusteeship under UN auspices. Britain would continue to administer the territory, but the trusteeship government would be written in terms which acknowledged Argentina's interests. Justinian wrote: "Implicit in trusteeship is the idea at some stage the islands might, for strictly geographical reasons, become part of the Republic of Argentina."

If Justinian's contribution to the debate did not commend itself to the government, the idea was fostered by a number of leading politicians. It was the nearest Justinian ever came to influencing the authorities. Other writings attracted no more than passing interest, gaining approval or incurring displeasure. If it was the latter, few disgruntled readers delivered a public or private rebuke. (Justinian acknowledges gratefully the forbearance of his readers.) Justinian's influence was,



## 'I worry about US competitiveness'

compile a list of which technologies are generic to many industries. That's basically what MIT (Ministry of International Trade and Industry) did in Japan, or the US Defence Department, or Germany.

"If you've established that these technologies are common, that avoids the whole question of industrial policy and favouring one industry over another. That's why you don't come up with 'Wow, let's go build a high definition TV factory.'"

So what kind of technologies are we talking about here?

## PERSONAL FILE

1940 Born in Anna, Illinois. Educated at University of Illinois (BS, engineering) and Brown University (MS, engineering; PhD, applied mathematics).

1966 Bell Telephone Laboratories, research and development.

1976 Joined Motorola's communications products division.

1983 Appointed corporate vice-president.

1988 Named president and chief executive officer, Motorola Inc.

1990 Elected chairman of the US Council on Competitiveness.

Take flat screen displays, he says, as used in computers and other electronic hardware. "In flat screens we have virtually no big companies except IBM, which is working with Toshiba in Japan."

"But for reasons of national security and commercial competitiveness, the US - and the European Community, for that matter - should have indigenous suppliers of flat screen displays." It is not so many years, he recalls, since the world suffered a shortage of standard micro-chips. This conferred a huge advantage on

electronics companies who made their own.

Similarly, he says, "the western world's computer industry could be put out of business as we evolve more and more to flat screen display, unless there is a capability in the US and Europe to develop flat screen displays. That's not necessarily because of any obvious motive. The world runs out of capacity from time to time, and guess what - the people who have the capacity are going to be supplied first."

One cannot help remarking that Fisher's attitudes to industrial policy must be coloured by the fact that whatever technologies are picked, Motorola is likely to benefit. Yes indeed, he says cheerfully. "I may have been born on a farm, but I wasn't born yesterday."

But look at it this way, he says. "If more of the money that used to go on defence is spent on Aids research, that's probably a good use of taxpayers' money. That also helps some pharmaceutical companies make a lot of money, and I don't feel bad about that as a taxpayer. Likewise, if some of that money is redeployed from heat-seeking missiles to the fundamentals of new display technology, and a company like Motorola benefits, I don't feel bad about that either."

Given that so much of the conversation has been about politics, a final question inevitably suggests itself. On the eve of the US presidential election, who does he - or Motorola - want to win?

"I think it's mixed," he says cautiously. "Much of what the Bush administration has been doing has been fine. They have tried very hard to open markets around the world for us, and Motorola has certainly benefited from that."

"On the other hand, Clinton would have the advantage of working with a sympathetic Congress. Right now, the good things the president would

want to do are stopped by Congress, and the good things Congress would want to do are stopped by veto."

What good things does he have in mind? "We were talking about some of them earlier. Right now, the current in the administration is much more towards letting market forces prevail: let's not interfere; government will only screw it up. Way over on the other side is government involvement in virtually everything, social or industrial. But what you see in this election is interesting. Clinton has some advisers way over at that extreme, but he himself is much closer to the middle. Bush is coming closer to the middle, but he's got some advisers way over at the other extreme."

"The healthy thing is those guys understand the need for the Republicans to come more to the middle socially and the Democrats to come more to the middle economically. So either Bush or Clinton will be fine. I'm going to vote for Bush, probably, but I'm not pessimistic either way."

## Long wave interference

The Long Wave is the least understood and most important (cycle)... but it moves so slowly that the motion is imperceptible to the human eye. Yet like the glaciers, it can have the most devastating effect on the countryside - Professor John Sterman, Massachusetts Institute of Technology.



MICHAEL PROWSE on America

Everybody seems to be talking about "long waves" - the 50-60 year economic cycles that Kondratieff, the Russian economist, first claimed to have identified in the 1920s. A fortnight ago, I was discussing the US outlook with Mr Charles Venn, an economic consultant in Little Rock, Arkansas. He pointed to low interest rates and gave the usual textbook arguments for a solid US recovery over the next few years. But then he surprised me by raising a horrible doubt. Might not the US - indeed the entire global economy - be caught in a Kondratieff downturn?

This is precisely what is happening, according to a paper presented to a recent Bank Credit Analyst conference in New York by Mr John Sterman, a long wave theorist at MIT's Sloan School of Management. The economy is hard to understand, he believes, because four things are happening at once.

Over the longest time span, technical change and population growth result in steady economic growth - about 3.5 per cent a year since 1800 in the US. Long waves represent very slow, very powerful fluctuations about this trend, lasting some 50-60 years. Superimposed on each long wave are numerous short-term business cycles, lasting on average about five years. Finally, there is "random noise", reflected in arbitrary variations in the growth rate from quarter to quarter.

Most academics refuse to believe in long waves. Joseph Schumpeter, the Austrian analyst of capitalism, was an exception. In his book *Business Cycles* (1939), he identified

three long cycles, the first beginning with the birth of modern capitalism in the 1790s, the second in the 1840s, and the third at the end of the 19th century. Lengthy economic downturns - including the Great Depression of the early 1930s - occurred roughly on cue in the second "downswing" phase of each cycle. In the 1940s, Schumpeter was one of only a handful of economists to predict strong global growth after the second world war, partly because he believed the powerful expansion phase of the fourth Kondratieff cycle would then be under way.

But what could cause cycles of such long duration? The long-term dynamics of capital goods industries and the tendency for innovations to occur in clusters provides a possible answer. The start of an upswing is characterised by pent up consumer demand and a wave of investment in new technologies. Motor cars, washing machines and televisions helped power the post-second world war expansion, just as railways provided a boost in the mid-19th century.

But the supply of new products first requires investment in capital goods industries, a process that can feed on itself for several decades. At some point, however, capital goods production exceeds demand, precipitating cuts which eventually trigger the contraction phase of the cycle. In long waves, assets - such as plant, equipment and real estate - thus play an analogous role to inventories in short-term business cycles.

There is another plausible reason for long waves: after

50-60 years the people whose mistaken expectations shaped one cycle will be dead or very old and thus unable to influence their successors. Put another way, you are unlikely to repeat the mistakes of your parents, but you may easily fall into the same traps as your grandparents. The speculative excesses of the 1980s, for example, could not have occurred in the 1950s because too many people then vividly remembered the 1930s. In the 1950s in the US it was difficult to borrow against the security of a house, because real estate was still seen as a highly illiquid asset of uncertain value.

I remain agnostic about long waves. But if they exist, where are we now? According to Mr Sterman, the current long cycle peaked in the early 1970s when excess demand began to emerge in heavy capital goods industries such as steel. We have been in the downswing phase ever since; this is why growth has tended to be below the long-term average of 3.5 per cent and why short-term recessions have been more severe than in the immediate post-war decades. The final phase of a long wave is characterised by a trough in which the economy moves sideways in preparation for a new Kondratieff upswing.

If the trough began with the 1990-91 recession, might an expansion soon begin? It is possible, but not probable. None of the relevant leading indicators - such as the rate of capacity utilisation in capital goods industries - point to an early upturn. Most economies still seem burdened by the excesses of the last cycle. There is no yet a sense either of pent-up demand from consumers or of an imminent wave of investment in new technologies. But long wave theory suggests most of the downswing is behind us. By the late 1990s, the mostly myopic economics profession may be amazed by the strength of the global recovery.

\*BCA Publications 3463 Peel Street, Montreal, Quebec, Canada H3A 1W7.

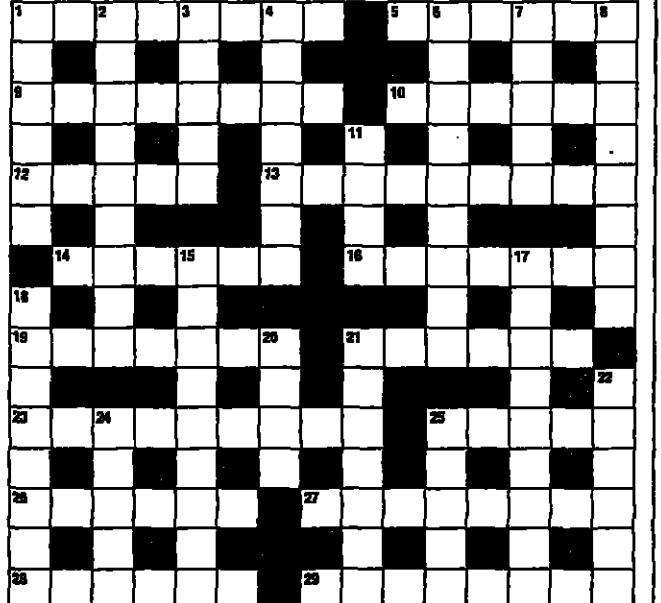
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- 1 Manual worker having to make reservation (4-4)  
5 Clubs accepting man that has a dip (5)  
9 Canine pair taken in by artists (3)  
10 Country headgear (6)  
12 Tenure when in shelter (5)  
13 Child every journalist wants untrained (9)  
14 Recipe for birds killed by young cat? (3-3)  
16 Rugby player getting gear right (7)  
19 Put animal to death for a sneaking look (4-3)  
21 Suppliances heard to give delight (5)  
23 Cat is true to form when having to live in the country (9)  
25 Dish often mixed with a grating sound (5)  
26 Dined at hotel, as is only natural (6)  
27 Breadth in interpretation of distance from the equator (8)  
28 Vegetables for the party? (6)  
29 Showing due respect for ever in payment (3)
- 1 Thus perhaps the French get a move on (6)  
2 Telling about arrival in country (9)  
3 Spree at some club in Germany (5)  
4 Unlocking opportunity (7)  
6 Girl finds church in minor road in snowfall (6)  
7 Scrub resembling man in battered hat (5)  
8 Kind of tree used as a basis of measurement (3)  
11 Notice rising peaks (4)  
15 Mind about entering club for a game (9)  
17 Lack of energy making girl turn in diet perhaps (9)  
18 Scorching along with the house cleaning? (6)  
20 Tackle some strange art forms (4)  
21 Clergyman about to take collection tray round (7)  
22 Most ancient portion of Nutfield establishment (6)  
24 One out of five showing discomfiment (5)  
25 The appearance of men it is said (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 7.

## Justinian bows out



JUSTINIAN

Justinian is today given his quietus. For more than 30 years this column - wittily dubbed by Private Eye as "Justinian for the Money" - has appeared weekly (more recently, fortnightly) to convey to readers how the law works in practice, as opposed to the law in the text books.

Its author feels that at this moment some reflective thoughts - even highly personal ones - over three decades of legal journalism would not go amiss.

To write about the legal system and the legal profession in the early 1960s in any daily national newspaper was almost a novelty. It was also slightly hazardous for any journalist without a legal qualification, let alone for a qualified lawyer.

The legal profession positively opposed the concept of openness on matters outside the open courtroom. To write without the cover of anonymity, if the author was simultaneously a practising barrister, was an imperative. Even then the author was quickly unmasked. This author recalls sometime in the early 1960s being summoned to appear before that benign and great Lord Chief Justice, Lord Parker. Trembling for fear that some dreadful legal solecism had been committed, the author duly appeared.

The mild, friendly rebuke was not for having perpetrated an error of fact or for misunderstanding the law, but for the fact that it was regarded as improper for a practising member of the Bar to be relating to the outside world what went on in the monastic environs of the Temple.

That kind of judicial review of Justinian's writings could not seriously be entertained today. There is now total acceptance that even such a distinguished Queen's Counsel as Mr David Pannick can deploy, with almost total impunity, his radical pen, fortnightly in *The Times*.

It is one of the notable features of a changing legal profession, now proclaiming its openness to the scrutiny of the public it serves, that it can contemplate, even encourage, self-criticism in the media.

Contrary to popular belief, the judges themselves have begun to pay attention to the scribbles of the legal commentators. A cuttings service has been available to the most senior judges.

On one occasion - it was the contempt case against the journalist who declined to reveal his source - counsel, who was advancing an improbable, not to say impossible argument before the Court of Appeal for the contemnor, was told by the Master of the Rolls, Lord Donaldson, that the struggling advocate might find a more valid argument from a recent article by Justinian. Adoption of Justinian's views was, how-

more in the area of journalistic limitation. At the beginning of the 1960s there was only the faintest recognition by Fleet Street of the need of a legal correspondent. Indeed, Justinian was the *nom de plume* for the emerging legal correspondent of *The Guardian* and *The Observer*.

Today, all the broadsheet newspapers carry weekly law pages - no doubt generated by the advertising world - and regular stories and feature articles on the law and the legal profession. The recent reforms of the profession, which were openly fought over between the judiciary and the Lord Chancellor, provided newsworthy (even exciting) copy for serious readers.

Today, the law occupies a discrete segment of the daily fare for readers of the serious organs of the media. As Justinian bows out, he can claim to have been the precursor, but not the spawn of contemporary legal journalism.

Perhaps Justinian may indulge in one piece of immortality. David Kynaston wrote in his 1988 centenary history of the FT that for more than a quarter of a century the paper had been provided "with a legal commentary, not only on matters of commercial law, of the very highest calibre". If that was a sound assessment, it would need some qualification in the light of today's rival legal commentators, to whom Justinian is sensibly bidding farewell. The competition is now too fierce for the comfort of a commentator with 30 years' experience on legal affairs.

Louis Blom-Cooper QC

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October 26 1992  
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# FINANCIAL TIMES SURVEY GERMANY

□ Signs that the economy has run out of steam: see page 3

□ Carmakers under pressure as sales stagnate at home and abroad: see page 8

## SECTION III

Monday October 26 1992

IT WAS ALWAYS clear that German unification would be a painful process, but quite how traumatic and prolonged that pain may prove to be is only now emerging.

The euphoria of unification two years ago blinded many, including Chancellor Helmut Kohl, to the real scale of the adjustment needed in transforming an unreconstructed Communist economy and society into a capitalist one.

The threat of economic recession in the west has opened many eyes to the real costs of subsidising the east, in a society where problems in the past have been dealt with simply by throwing more money at them.

The lack of compatible structures in the former East Germany - administrative, commercial and social - capable of supporting the western-style social market economy has meant that everything has had to be built up virtually from scratch. In the meantime, all the old structures have collapsed.

After two years of insisting that unification could be accomplished relatively painlessly, that it could be implemented quite swiftly in the east, and at the same time without significant tax increases in the west, Mr Kohl has started to prepare his people for a much longer haul.

"We know today better than we knew two years ago that this truly secular, unique event brings with it huge problems, more than many - including myself - had expected," the Chancellor told the German Bundestag in last month's budget debate.

Senior government officials estimate that it could go on costing west Germany up to DM150bn a year in net transfers to the east for the next decade.

Officials also recognise that it cannot go on indefinitely being financed from the capital markets, but must mean both strenuous budget savings in the west, and almost certainly new tax increases.

Any weaker economy than the west German one could not even begin to contemplate the sort of financial transfers already carried out in the two



In reflective mood: Chancellor Helmut Kohl. Also pictured, left, the Reichstag building in Berlin, which will once again house the parliament for all of Germany; and, right, Berlin traffic passes through the Brandenburg Gate

## The national euphoria is over

As Germany's economy slows down, the real cost of unification and the subsidising of east Germany is becoming painfully clear, reports **Quentin Peel**

years since unification. A quite extraordinary effort of reconstruction is already under way, involving every aspect of the physical infrastructure of the former Communist state. The problem is that at the same time, east German industry has collapsed, and shows very little sign of sustained recovery.

If the western economy was growing fast, the cost of east German subsidies might appear more manageable. But the artificial boost which followed unification is over, and there has been no revival in the international economy to give an export-led boost in the west.

All forecasts for economic growth this year and next are being revised downwards. The result is that depression in the east is reinforced by gathering fear of recession in the west.

and the mood in the nation as a whole is increasingly gloomy.

To compound the economic stress, the country is now facing an unprecedented influx of would-be immigrants, above all from eastern and southern Europe.

They claim asylum, under Germany's liberal asylum laws, but they are in reality economic refugees from the collapse of the Soviet empire. Numbers could reach as many as 500,000 this year. They are also an easy target for a mindless minority of German youths, alienated in the east by the collapse of their system and their job prospects, and in the west by the very materialism of a successful capitalist culture.

The skinheads responsible for attacking asylum-seekers' hostels are scarcely thinking neo-Nazis, but they have cre-

ated a climate of fear at the possible revival of right-wing extremism, both within Germany and abroad.

The opinion polls show a slow but steady increase in support for the parties of the far right, led by the Republicans, who would gain more than the minimum five per cent necessary for seats in the Bundestag, if there were elections tomorrow. It is a prospect which has the large parties rattled.

At the same time the whole country is suffering - like the rest of western Europe - from a general disaffection with the political establishment.

There is a mistrust of politicians, reflected in consistently low ratings in all the opinion polls, with Chancellor Kohl coming out frequently bottom.

It is a moment which seems to cry out for clear leadership, yet that is precisely the sort of leadership which does not suit Mr Kohl. He is the ultimate politician of consensus, the master of prevarication, who blurs his own position on every issue until the outline of a possible compromise emerges from the ongoing debate.

It is a form of leadership which has suited Germany in the good times, but it could prove a liability now that hard choices have to be made on spending priorities.

That is not entirely fair. Mr Kohl has given a lead on one issue, and that is his passionate and very personal commitment to European union - to an ever more closely integrated European Community. It is the one theme on which he has sought to rally his people, yet, ironically, it is one issue on

which they appear to be getting doubtful themselves.

There is still a majority in the polls in favour of the Maastricht treaty on European union, and there is an overwhelming majority in parliament in favour of ratification, but on the specific question of whether a single European currency should replace the Deutsche Mark, there is a very clear majority against.

Even the German business community shares some of the growing scepticism about the value of the European Community and its single market to the German economy.

The Chancellor has now put his faith in a new hope: a "solidarity pact" to persuade the business sector, trade unions, the opposition Social Democrats and the 16 federal states to back the government in a deal to help finance the costs

of unification. It is supposed to be negotiated by the end of the year.

There are signs that such a pact may be possible, if only because of the growing fear on both sides of industry that the recession is upon them.

Mr Richard von Weizsäcker, the state president, and increasingly the voice of reason speaking out above the muddled political debate, singled out two key challenges - financing German unification, and coping with immigration - as nothing less than touchstones of German democracy. It was a sombre warning.

And yet one of the great strengths of Germany's post-war system has been the country's capacity to find a consensus, and defuse confrontation. The challenge of unification is simply the biggest challenge it has had to deal with so far.

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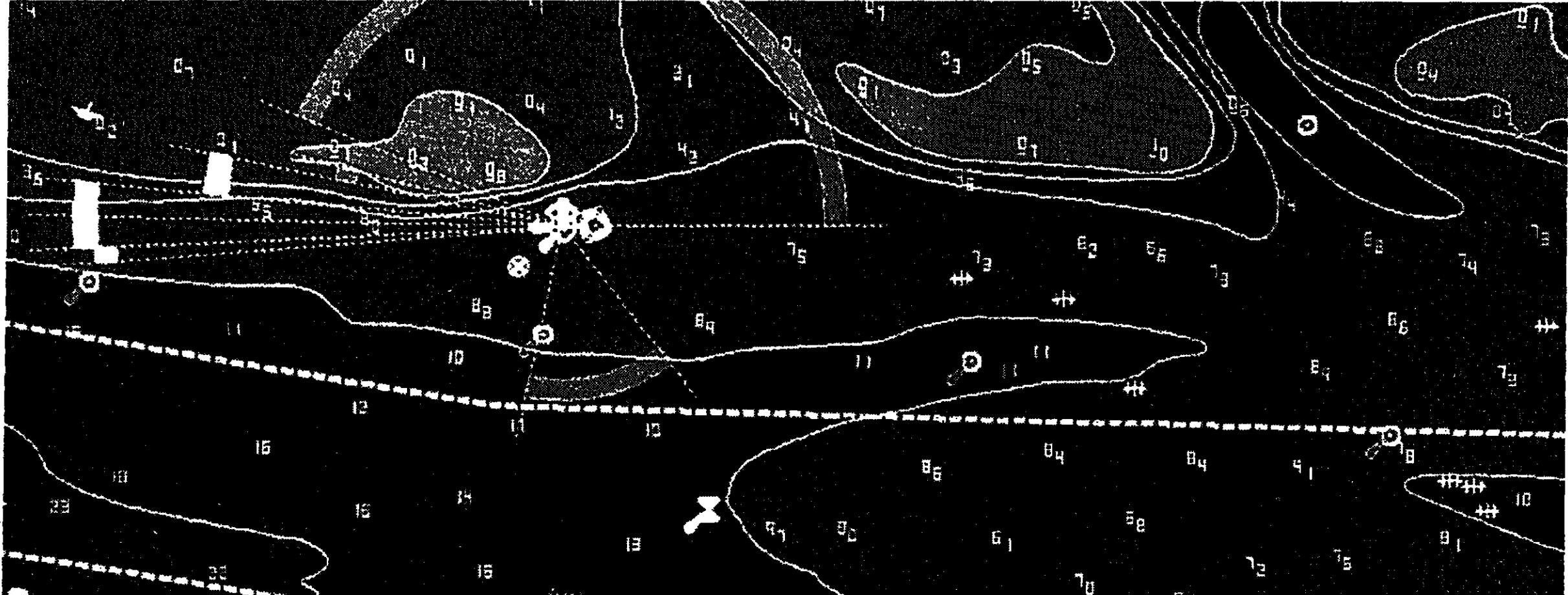
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Editorial production: Michael Wiltshire. Pictures: Tony Andrews	

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GERMANY 2

THE POLITICAL SCENE

# Main parties in trouble

THEY call it *politikverdrossenheit*: it means being fed up with politicians. It is of course by no means an exclusively German disease. But Germany thinks it has got it so badly, it has invented a word for it.

The opinion polls suggest that all the major political parties are in trouble. If there were an election tomorrow, none of the obvious combinations would be able to form a majority government.

Chancellor Helmut Kohl's Christian Democratic Union (CDU), along with its Bavarian sister party, the Christian Social Union (CSU), is bumping along with support at around 35 per cent.

The opposition Social Democrats (SPD), who should be profiting from their disarray, are on just about the same. The Free Democrats, junior partners in the ruling coalition, are stuck at around eight per cent, no more than the environmentalist Greens.

In local elections over the past year, the largest percentage belonged to those who did not vote at all. There is certainly a *malaise* in and with the political establishment. In part it has been expressed in the rise of the extreme right-wing, led by the Republicans, who have pushed their national support above the five per cent cut-off point, which would allow them seats in the Bundestag at the next elections. That is far below the sort of support Mr Jean-Marie Le Pen's National Front enjoys in France, but in Germany, any drift to the right instantly arouses fears of a Nazi revival.

The other expression of discontent showed up in the latest Berlin city elections, where the PDS, the successors to East Germany's corrupt old Communist party, pushed up their support to almost 30 per cent of the poll in eastern districts: a clear reflection of eastern dissatisfaction with the other "western" parties. The CDU scored a miserable 14 per cent.

As yet, it is not as serious as some of the more angst-ridden commentators (in Germany and abroad) would have us believe. It is a function both of the profound social and economic upheavals related to German unification, and of the mid-term blues of a parliament half-way through its electoral life. It is a reflection, too, of the often apparently rudderless German coalition system, which drifts towards consensus, aggravated by the style of Chancellor Kohl, who tends to lead from behind.

The worry, however, is that the challenges of unification will put an unprecedented strain on the still relatively youthful German post-war democratic system. It almost certainly faces its greatest chal-

lenge yet to cope with the divide that has opened up right through the newly united country.

All the polls reveal dramatically different priorities between the citizens of east and west, differences which the established parties are finding it extremely difficult to bridge. Thus by far the most important issue for easterners is unemployment: 66 per cent say so, as against just 17 per cent in the west. As for the wealthy westerners, their greatest concern is the influx of foreigners and asylum-seekers - the top worry for almost 50 per cent, whereas the issue barely even figures in the east.

Mr Kohl's CDU has suffered most from the disillusion in the east. He won the unification elections largely thanks to his optimism that the process would be relatively swift and painless. Now he admits he got it wrong, but the party is paying the penalty.

The SPD is paying the price for confu-



More refugees: Bosnian women and child arrive in Germany

sion on the asylum issue, albeit an understandable confusion. Whatever the public propaganda says, Germany has never welcomed would-be immigrants. Migrant workers were all right, and former German emigrants to eastern Europe coming home are tolerated.

A handful of asylum-seekers fleeing genuine political persecution was acceptable, but now the handful has turned to a flood of refugees from poverty in the east and south. The numbers could reach 500,000 this year. The SPD is terribly torn between its moral conscience, and the political unpopularity of immigration at a time when housing is already short, taxes have risen to pay for unification, and the economy is turning down.

The asylum issue is probably the one question which has caused most chaos and confusion in the political establishment, and has certainly helped boost the fortunes of the far right.

The coalition has been divided between the hard-line anti-immigration CSU (which faces the most serious right-wing threat in Bavaria), and the liberal FDP, which resisted calls for a change in the German

constitution until the last few weeks.

The political debate on asylum has run for months, if not years, inching towards a suitable consensus, and leaving the common voter confused and clearly alienated.

There have been equally interminable discussions on old age care (should it be financed by universal contributions, or voluntarily?), on abortion (because of the need to reconcile the excessively liberal East German law with the illiberal western one), on state subsidies in all parts of the German economy, and on whether German soldiers should serve outside the Nato area (and if so, in a peace-keeping capacity, or also allowed to be peace-making?).

Only now is the real debate coming to a head: how can and will Germany finance the costs of unification, which could mean transferring up to DM150bn a year to eastern Germany for a decade or more?

Even that has visibly split the ruling coalition in three ways, ranging from the eastern CDU, which would raise taxes, through the CSU (led by Mr Theo Waigel, the Finance Minister), which would fudge the issue through a tax-free bond, to the FDP, which would let market forces rule (give or take a little interest-rate subsidy).

No wonder the old ghost of a grand coalition between CDU and SPD suddenly crept out of the closet during the summer. Key confidants of the Chancellor's, like Mr Wolfgang Schäuble, the parliamentary leader, and Mr Volker Rühe, the Defence Minister, appeared to be actively wooing the opposition. But the Chancellor would, and will, have none of it. It would only encourage the drift of voters to the political extremes, he believes.

Instead, he is looking for a next best alternative: a "solidarity pact" between German industry and trade unions, the government and opposition (including all the SPD-ruled Länder).

In doing so, he is actually accepting an idea floated by Germany's five economic institutes, and accepted by the SPD, a year ago. He has let the situation deteriorate to a point where perhaps all sides will be forced to accept a compromise - like a real wage freeze in exchange for higher taxation - which might have been unthinkable one year ago.

That would be a classic Kohl manoeuvre to push forward the political process. The risk is that he may have left it too late to stop the disaffection of his voters, and too late to revive the east German economy in time for the 1994 elections - and save his own political neck.

Quentin Peel

German foreign policy faces sensitive issues, says Quentin Peel

# A difficult balancing act

THE dramatic resignation of Mr Hans-Dietrich Genscher as German foreign minister after 18 years in office, announced last April and carried out in May, was more than the end of a personal era.

It symbolised a watershed in German foreign policy.

Only weeks before, Mr Gerhard Stoltenberg was forced to quit involuntarily as minister of defence, because of a row over arms shipments to Turkey.

Almost at one blow, the two longest-serving members of the Kohl coalition vanished from the scene, making way for a younger generation, just at the moment when Germany's foreign and security policy is undergoing a fundamental reassessment.

Today a new team is in office in the German foreign ministry, headed by Mr Klaus Kinkel as minister, matched by a new team on the other side of Bonn, in the defence ministry, headed by Mr Volker Rühe. Both are energetic and ambitious politicians, and their new style has rapidly become apparent: the question is whether it will also mean a new content to external policy.

Mr Kinkel could scarcely have been more hand-picked for his job: he was a young civil servant plucked from obscurity to head the private office of Mr Genscher back in the early 1970s, before becoming head of the ministry's planning staff. He remained a civil servant, including a brief stint as head of the BND, the German secret service, until January, 1991, when he was suddenly promoted to be minister of justice, and joined Mr Genscher's party, the Free Democrats (FDP).

As for Mr Rühe, he is a politician to his finger-tips, and makes little secret of his ultimate ambition to succeed Mr Helmut Kohl as German Chancellor. He was secretary-general of the Christian Democrats (CDU) before Mr Stoltenberg quit, and he was suddenly thrust into the Cabinet. Within weeks he had launched a string of new initiatives, all but-axed the controversial European Fighter Aircraft (EFA) project - much to British fury - and shaken up his entire sleepy organisation.

Both, therefore, have a vested interest in a high-profile, successful new German foreign policy. Yet both have also an urgent need to reassure Germany's partners that they are not dealing with a changed regime in the wake of unification, one which could become a re-assertive, heavy-handed would-be superpower. So their emphasis is equally on continuity.

Mr Kinkel, in his most recent restatement of German foreign policy, deliberately used the phrase coined by Mr Genscher, his mentor, to sum it up: "The politics of responsibility."

In essence, that means that Germany



Dr Klaus Kinkel, foreign minister



Mr Volker Rühe, defence minister

renounces any hint of nationalism or power politics, grim reminders of its hegemonistic past, in favour of whole-hearted integration in international organisations: the European Community, Nato, the United Nations, and the Conference on Security and Co-operation in Europe (CSCE). It is a policy which has, if anything, been reinforced by the instability and upheavals going on in central and eastern Europe, after the collapse of the Soviet empire.

"There is a general trend of centrifugal forces right across Europe," according to one very senior German diplomat. "Everything that had been kept together more or less by outside pressure is no longer under that pressure."

"At the same time, it is not only a united Germany that is looking for a new place in the new order. There are many others who are uncertain of their place. Indeed, none of the major players knows its place. The consequence is that we have to foster and support every movement towards integration, be it in the EC, the Western European Union (WEU), Nato, the Nato co-operation council (with eastern Europe), and the CSCE."

"If we want to regain our stability, and we have to, we have to foster these developments towards integration. Integration is our best insurance against domination."

Mr Kinkel puts it also in terms of exter-

nal perceptions - "since unification, the world sees us with different eyes," he warned a recent meeting of newspaper publishers. "In this changed environment, the unified, bigger and sovereign Germany must now achieve what it has twice before failed to do: it must find a role in the world which corresponds both to the wealth and wishes of our own population, and which is also acceptable to our neighbours and partners."

That is the difficult balancing act the two new Ministers are seeking to perform. There is no question but that the European Community, and Chancellor Kohl's driving ambition towards greater integration in a European Union, remains at the heart of German foreign policy.

The storm of debate over the Maastricht treaty, which would introduce a single currency, and - eventually - a common foreign and security policy - has left German commentators doggedly restating their belief that there is "no alternative."

In spite of his awareness that a large majority of Germans are deeply unhappy with the idea of giving up their hard Deutsche Mark for a future European currency of uncertain stability, Mr Kohl is adamant that he will press ahead regardless.

He would add to that another priority: that of "normalisation." That means Germany taking up its responsibilities in international relations, put on ice ever since the Second World War.

Mr Rühe has begun a policy of attrition, despatching military doctors to Cambodia, military transport planes to Bosnia-Herzegovina, and naval ships to the Adriatic, as well as military members on a CSCE mission to Georgia, in the former Soviet Union. Mr Kinkel puts the theory: "We Germans cannot have UN membership *à la carte*," he says.

"Normalisation... means the Bundeswehr undertaking worldwide peace-keeping roles under the auspices of the UN, and with the approval of the Bundestag."

"We cannot expect to go on sitting in the spectators' seats at the world stage."

Another sensitive question is whether Germany should apply to become a permanent member of the UN Security Council. Mr Kinkel says: "We are not pushing ourselves forward, but if the question arose of a corresponding reform in the UN charter, and others like Japan, Brazil, Nigeria and India, put in a claim, then we will also express our wish for a permanent seat."

Furthermore, after last summer's skin-head riots in Rostock and arson attacks on a Jewish memorial at the Sachsenhausen concentration camp, the foreign minister said Germany could squander "the chance of achieving normality as good Europeans if we allow our image abroad to be marred by terrorism and hatred of foreigners... we must do everything in our power to bury this ghost."

□ See also page 9: the immigration issue.

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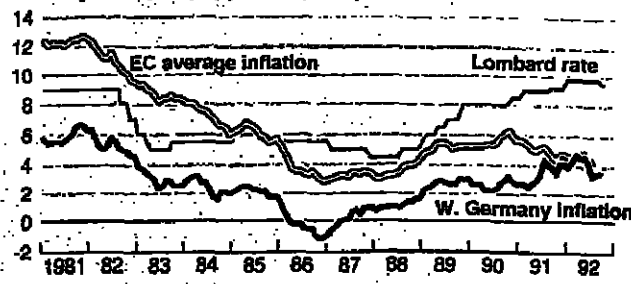


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## Inflation

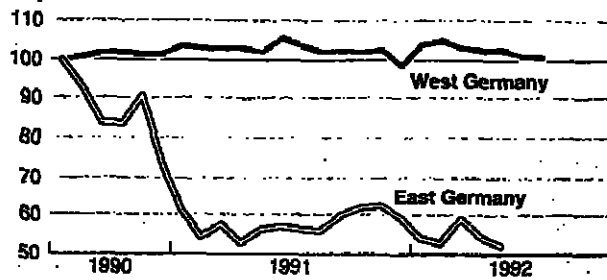
% change over previous year



Source: Datastream

## Manufacturing production

July 1990 = 100



Source: Datastream

Although west Germany's traditional foreign markets have signally failed to recover and produce the forecast autumn surge in exports, the government remains outwardly confident, reports Christopher Parkes

## The economy runs out of steam

THE west German economy has run out of steam at precisely the time when it was expected to move up a gear and accelerate, taking the country into its tenth consecutive year of steady growth and carrying the former GDR briskly towards a bright future.

The west's traditional foreign markets have signally failed to recover and produce the forecast autumn surge in exports. The east's markets in the former Soviet Union, Hungary, Poland and Czechoslovakia have collapsed and show no sign of recovery.

Domestic demand has slumped. And in September the spectacular appreciation of the D-Mark against the currencies of many of Germany's key trading partners dealt a telling blow to any lingering hopes of a late increase in export orders.

After a freak spurt of growth in the first quarter of this year, which stemmed mainly from the effects of fine weather on construction industry output, the economic growth chart has slid back to the downwards trend which started in the second quarter of last year.

Independent economists, who have steadily downgraded their predictions for the past six months, now count on overall economic growth for this year of below 1 per cent. But the government remains resolutely more confident: it expects improvements in the final quarter to generate 1.5 per cent growth in gross national product for the full year.

However, its optimism is based on mainly technical factors. The last three months of this year include three more working days than in 1991, for example. Also, Bonn believes a looming one point increase in value added tax scheduled for January 1, will prompt a pre-Christmas boom in consumer markets.

But once that is past - if indeed it materialises at all - on current indications the slide is likely to continue into next year.

As things stand, the volume of new industrial orders to the end of August has fallen for six consecutive months. Capital equipment manufacturers,

which export around half their output, have been consistently worst hit. Production this year is expected to be 5 per cent down on 1991.

The depth of the troubles of the motor industry has become apparent more recently. The underlying effect of fading demand was fudged for much of the year as manufacturers raced to make up order backlogs. But new orders this year are now expected to be as much as one-third lower than last.

In Baden-Württemberg, home state to Mercedes-Benz, total orders for vehicles fell more than 16 per cent the first eight months. Domestic demand was down 26 per cent.

The chemical industry expects profits to fall 30 per cent in the current financial year... and the story continues across the broad sweep of west German industry.

Announcements of labour force cuts - 20,000 at Mercedes, 12,500 at Volkswagen, 7,500 at Deutsche Aerospace - have become routine news items as the year has progressed. Growth in the west's labour market, where 3m new jobs have been created in the last nine years, has stopped.

IN the east, the picture is fogged by wildly gyrating economic data. But the fact that the government has reduced its economic growth forecasts for the region from 10 per cent to between 3 per cent and 5 per cent speaks for itself. Although the official unemployment rate was 12 per cent in August, only half the labour force in the former GDR is productively employed.

The dawning realisation that the west is going to have to continue subsidising the east at current rates - transfers this year could reach DM170bn - for many years to come has served not only further to darken the immediate gloom. It has opened up a national debate on how Germany is to manoeuvre its way out of the current situation and at the same time consolidate the foundations for future growth and prosperity in both sides of the country.

According to the pessimists - denounced vigorously by senior officials at the Bundes-

bank - Germany now stands on the edge of recession. Hopes of withdrawing from the brink or injecting growth into the economy rest almost entirely with the independent central bank in Frankfurt, which controls German monetary policy. Hopes for a longer-term consolidation lie with politicians of all parties, trade unions and employers who have committed themselves to a so-called "solidarity pact" to foster and underwrite the unification process.

For the immediate future, much depends on the Bundesbank's interest rates policy. Expectations of rate reductions this year, which would have allowed European trading partners to stimulate economic activity and demand for German goods by cutting theirs, lay behind much of the early

optimism which produced forecasts of an autumn upswing. They have yet to be realised.

The bank stresses tirelessly that its prime task as protector of the long-term stability of the D-Mark precludes short-term manoeuvres to relieve cyclical economic difficulties. It will need to be convinced that inflation and the associated explosion in money supply growth are firmly under control before any significant relaxation can be expected.

While September's acceleration in the growth rate of the M3 money supply measure was a freak result, the underlying average rate of growth this year has been almost double the bank's targeted top rate of 5.5 per cent. Although a marked fall is expected in November as the economic downturn deepens, the Frank-



Car exports are being hit hard, as manufacturers struggle with high labour costs. New vehicle orders this year may be a third lower than last year; (see also industrial report on page 8).

furt policy-makers have admitted that there is no chance of bringing the rate within its target range this year.

Meanwhile, inflation seems to be stuck, doggedly resisting the bank's efforts. A month-on-month price rise pushed the annual rate to 3.6 per cent in September, and while the Bundesbank confidently expects the year's average to come in below 4 per cent, it has also warned of further deterioration in January when the VAT increase takes effect.

After that, much will depend on the impact of the 1993 pay rounds. Economists have been heartened by this year's two-year pay deal for an engineering workers which included a 3 per cent rise next April, and the recent 8.4 per cent claim from the Volkswagen workforce. They are now forecasting a 4 per cent average award for 1993 - compared with 6 per cent this year - and overall inflation of 3.75 per cent.

Given that the Bundesbank describes 2 per cent price inflation as merely "tolerable,"

present prospects give little cause for over-optimism about large, early cuts in interest rates in Germany. But if the bank can be convinced that a change of popular mood and realignment of people's expectations with economic reality is firmly underway, more concessions are possible.

It will need to be convinced that the government can deliver promised real cuts in public spending and look for evidence in the progress of Chancellor Helmut Kohl's solidarity pact, now being debated at the expert level. Early signs are not promising: the bank's recent statements indicate profound scepticism about the finance ministry's ability to rein in federal spending, and trade union leaders have already declared that they will not accept any renegotiation of deals to bring east German pay up to western levels by 1994.

However, early indications are not always to be trusted, as German economists who forecast an autumn recovery can verify.

## KEY FACTS AND INDICATORS

Area ('000 sq km)	357.1	Western Länder	248.2	Eastern Länder	108.9
Population (1991 est.)	79.8 million	Western Länder	64.1m	Eastern Länder	15.7m
Head of State	President Richard von Weizsäcker				
Currency	Deutschmark (DM)				
Average exchange rate †	1991 \$1 = DM1.6595, 12/9/92 \$1 = DM1.4682				

## ECONOMIC INDICATORS

	1991	Latest*
Total GNP (\$bn)	1,588	n.a.
Real GNP growth (%)	3.2	1.1
GNP per capita (\$)	24,780	n.a.
Components of GNP (%):		
Private Consumption	53.9	53.3
Total Investment	21.2	21.7
Government Consumption	17.8	17.9
Overseas Balance	7.1	7.1
Consumer prices:		
% change, per year	3.5	3.8
Unit lab costs (% change p.a.)	4.5	4.3
Ind. wage rates (% ch. p.a.)	6.0	5.4
Ind. production (% change p.a.)	3.8	0.5
Unemployment:		
% of labour force		
Western Länder	6.3	6.8
Eastern Länder	10.5	14.1
Reserves minus gold, (\$bn, end period) †	63.0	67.1
M3 growth (% change from previous Q4) †	5.8	9.0
Lombard rate (% and period) †	9.75	9.50
10-year benchmark bond yield (% average) †	8.44	7.85
FT-A Index:		
% change over year	+6.4	-11.5
Current account bal. (\$bn) †	-20.7	n.a.
Exports (\$bn) †	401.1	
Imports (\$bn) †	387.9	
Trade balance (\$bn) †	13.2	
Main trading partners: 1991		
% by value:	Exports	Imports
France	13.1	12.2
Italy	9.2	8.3
Netherlands	8.4	9.7
United Kingdom	7.6	6.6
Belgium/Luxembourg	7.3	7.1
United States	6.3	6.7
European Community	54.0	51.9

NOTES: unless indicated thus †, all figures refer to west Germany only; \* indicates 1992 figures (GNP - Q3, unit labour costs - June; wages - July; industrial production, reserves, M3 growth - August; consumer prices, unemployment, interest rates - September; FT-A Index - percentage change from 1/1/92 to 12/10/92).

Sources: IMF, Datastream, Economist Intelligence Unit, FT Statistics Dept.

## Bayerische Landesbank Bulletin

## MONEY AND CAPITAL MARKETS REPORT

## GERMAN BOND MARKET

### COMING UNSTUCK

The latest cut in the Bundesbank's key rates is nourishing hopes for lower interest rates. As past experience has shown, the real (inflation-adjusted) interest rate tends to come under pressure in the early and late phases of a cyclical upswing.

Opinions as to the dollar's "proper" level differ as widely as those regarding the "adequate" level of bond rates. What is proper and adequate depends chiefly on the specific circumstances. This is a question that can best be answered by the market.

For interest rates, however, there is a benchmark: the central bank's key rates. Nevertheless, the question may arise from time to time as to whether the benchmark is right: Is the level of interest rates compatible with the economic environment?

Even a look back on the period of high interest rates in the late 1970s/early 1980s does not provide much of a clue, as the latest developments in the financial markets bear little resemblance to past events. While the 1980s presented a uniform picture, i.e., interest rates were at a record level and the economies were at the bottom of the trough, the current situation is a much more diverse one: Germany and the EMS countries have comparatively high

interest rates compared to the state of their economies (recession in Britain and Italy; noticeable cooling in the other countries); US rates are at a multi-year low, but there are no signs of a recovery. A similar contrast also exists in Japan and Canada. It is therefore not possible to compare the present situation with that prevailing in the early 1980s.

## The D-mark's anchor role

The reaction of the markets was highly vehement: As a result of the turbulences, the EMS's fixed-rate system, which had fought shy of parity adjustments for more than five years, came unstuck. Italy and Britain pulled their currencies out of the EMS's exchange-rate mechanism until further notice, and the Spanish peseta was devalued. But we have not yet seen the "grand finale": a general reshuffle of parties within the system. To pour oil on the troubled waters, the Bundesbank lowered the discount rate from 8 1/2 per cent to 8 per cent and the Lombard rate from 9 1/2 per cent to 9 per cent, thus bearing in mind the D-mark's anchor role in the EMS. Previously the Bundesbank had sworn against the stream, largely undeterred by foreign criticism. While the central banks in the United States and Japan cut their interest rates in order to stimulate economic growth, the Bundesbank, focusing on Germany's domestic situation, gave top priority to price stability. As worldwide growth lost steam, other countries had difficulty following in the Bundesbank's footsteps. The recent events have, however, driven home the point that German monetary policy cannot cut itself off from the international mainstream. Frankfurt will remain the interest-rate leader, at least in Europe, but in contrast to the past two years it will now have to lead rates on a downward path.

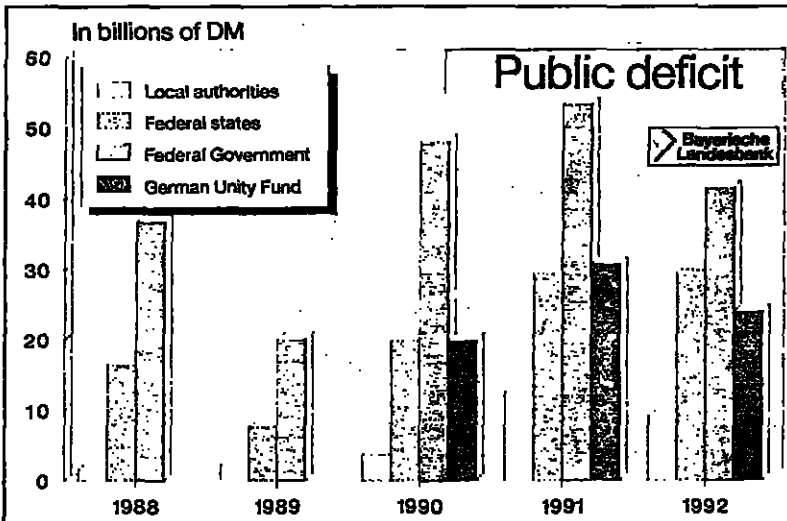
Optimistic expectations regarding interest rates can also be derived from the high real interest rate. Even after the latest rise in bond prices, the real yield on ten-year securities is still

considerably above 4 per cent; for short-term investments it is as high as 6 per cent. Past experience has shown that the real interest rate tends to come under pressure in the early and late phases of an economic upswing. This was the case in 1982, when the real yield to ten-year bonds dropped from 4.7 per cent to 3.3 per cent and that on short-term investments from 7 per cent to 2 per cent, and in 1975, when the real yield from these maturity categories fell, respectively, from 4.4 per cent to 1.8 per cent and from 5.5 per cent to below zero.

The expectation that the world economy will pull out of the trough and show clear signs of an upswing is encouraged by the cooling in inflation, both nationally and internationally. And there is no serious threat of inflationary pressures building up again in the foreseeable future, although the one-point increase in the value-added tax in early 1993 could bring a setback, at least a temporary one. Since the month of July, the rate of inflation has retreated into the three-per-cent range, from 4.8 per cent in spring. An extrapolation of the current trend makes it seem likely that inflation will bounce back to 4 per cent in January 1993, but it can be expected to ease again thereafter. In the first quarter of the previous

year, an above-average rise had been noted; the base effect will thus lead to lower inflation rates next spring.

The real interest rate is therefore unlikely to shrink perceptibly in the next six months. This quite apart from the fact that, as we know from past experience, investors tend to tone down their expectations regarding the inflation-adjusted return on their investments when prices remain stable (and interest rates decline). This means that the yield on ten-year public bonds could range between 7 1/2 per cent and 7 3/4 per cent in the remaining months of the year. This would, after all, be as much as 100 basis points less than in the same period of the previous year.



While the central, regional and local authorities merely had to raise a good DM 40 billion on the capital market to cover their deficits in 1986, the 1992 deficit will probably be twice as high. The sums borrowed in the capital market by independent government agencies (e.g., German Unity Fund, Treuhandanstalt), whose debt is guaranteed by the Federal Government, have to be added to this amount. The increase in public borrowing is due to two main causes: German unification and lower tax revenue. The government's finances will remain strained in 1993. The economy has lost momentum faster than expected; at the same time, the necessary infrastructural investments in eastern Germany will keep government expenditures at a high level.

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## GERMANY 4

Central bank has faced intense domestic and foreign scrutiny

## Bundesbank steels its nerve

**A**MID the brouhaha over the Bundesbank's tight monetary policies and their impact on other countries, it is easy to forget the tremendous esteem in which the institution is held in its own country.

Even trade unions have an uneasy respect for the Bundesbank. Usually, central banks and unions are well apart in the economic spectrum, with the policies of the former often aimed at curbing the demands of the latter.

This certainly applies also in Germany, as witnessed by the Bundesbank's constant warnings against the inflationary dangers arising from excessive pay claims.

But there is an important difference with many other countries, since union leaders and their members share with the vast majority of German citizens an innate dislike of inflation and a firm belief in the need to dampen it down.

This has not stopped union officials from berating the Bundesbank for its high interest rates and tight monetary policies. Nor did it prevent unions from asking for double-digit increases this year, though they did not get them.

But when IG Metall, the big engineering trade union, agreed a 21-month settlement with a lower wage increase for next year than in 1992, one of its top officials made clear that the Bundesbank was now expected to fulfill its job of keeping down inflation. In other words, the union trusts the bank to ensure that its members' purchasing power is not eroded.

More recently, Mr Franz Steinkühler, the union's fiery president, has offered a five-year wage pact under which increases will only keep pace with inflation and tax increases. This was his response to the government's calls for a 'solidarity pact' with unions, regional states, and industry to sort out the tangled problems of Germany's post-unification finances and economic sluggishness.

Whatever the outcome of such efforts, it is clear the German public's regard for the Bundesbank goes far beyond

that of, say, the British for the Bank of England. So however strongly the Bundesbank may be attacked abroad – and it was criticised very sharply in the UK over the latest currency upsets leading to sterling's devaluation – its domestic position is secure.

There are clear historical reasons for this, lying in the dreadful inflationary experiences of the early 1920s and the aftermath of the Nazi evils which caused the Second World War and left the German economy shattered.

Both have left their mark on the German psyche. Inflation is regarded as a virus to be eliminated before it becomes too threatening. It is this strong public backing, coupled with a legally enshrined independence that is the envy of other central banks, which steels the Bundesbank's nerve when it comes to dealing with governments, unions, and employers.

The bank has crossed swords a number of times with Bonn. Chancellor Adenauer was put out when the Bank deutscher Länder, the Bundesbank's predecessor, put up interest rates in 1950. He called a later rise six years later a "gullotine" for the economy.

In 1972, Karl Schiller, heading both the economics and finance ministries, resigned over a Bundesbank proposal for temporary capital controls. A decade later, Chancellor Schmidt pleaded in vain for lower interest rates.

Today, the immense financial, economic, and social strains caused by unification – both by the speed of the event and the scale of the challenge – have put the Bundesbank under domestic and foreign scrutiny as never before. For the sentinels of the D-Mark who work in the Bundesbank's austere, unappealing headquarters at the edge of Frankfurt, the glare of publicity has been disturbing and disruptive.

Imbued with the stability

ethos of the Bundesbank, its policy-makers are used to thinking medium and long-term and acting accordingly.

Underlying their policies is a commitment to steady and manageable growth, with the Bundesbank providing the monetary conditions to support an economy which is not subject to 'stop-go' jerkiness.

Its money supply targets, now the subject of numerous analyses, are designed to permit rising production without additional inflation. The fact that its latest target is being dramatically overshoot has led to the Bundesbank's high interest rates, these reflecting its dislike of the government's fiscal inertia and of inflationary pay deals.

Since the Bundesbank is not an arm of government, though it is obliged to support Bonn's economic policy as long as this does not conflict with its own duties, it acts under its own responsibility. This may mean that, as at present, bolstering a weakening economy takes second place to countering inflationary trends.

At one stage this year, the annual rate of inflation approached 5 per cent, a level that would be met with equanimity in many countries but not in Germany. The Bundesbank, led by Mr Helmut Schlesinger, 68, a resolute defender of price stability who has spent four decades at the central bank, is determined to bring it down to 2 per cent.

This will certainly not be achieved this year, nor probably in 1993. But it is worth recalling the Bundesbank's record in assessing whether it will eventually succeed. In the inflationary 1970s, west Germany was the only country to keep its annual increase in single figures. In 1986, it actually had a minus inflation rate, the first since 1953.

With Germany's finances strained by the high costs of unification, the Bundesbank is under the most extreme pressures it has ever experienced.

Even Mr Karl Otto Pöhl, whose resignation as head of the Bundesbank last year reflected differences with Chancellor Kohl over post-unification policies, never had to



The Bundesbank council meets in Frankfurt: underlying its policies is a commitment to steady and manageable economic growth

face the unfavourable publicity barrage that has descended on the courteous but stubborn Mr Schlesinger.

As the Anglo-German rumour dies down, with the UK

searching for a new economic policy and Germany struggling to make unification work at a time of slackening growth, the Bundesbank obviously hopes to stay out of the spotlight.

But every time an interest rate change is rumoured or European currencies look like being pulled apart again, the German central bank will be at the centre of attention. Uncom-

fortable it may be for Mr Schlesinger and his colleagues, but the strength of the D-Mark has its price.

Andrew Fisher

David Waller looks at Germany as a financial centre

## Bonn has a change of heart

minister, and published without fanfare a few days before Mr Kohl delivered his address to the flower of Frankfurt's business and financial community. The plans were ambitious – to get a host of measures in place by the end of the current year – but in the event there were ten months of silence before anything tangible came of the proposals.

The Waigel document spelt out government support for increased regulation of the securities markets; for a unified stock-exchange for the whole of Germany; for an insider dealing law; for more sophisticated dealing technology; for better stock-market disclosure rules and transparency; for legislation to enable banks to launch money market funds which give investors

direct access to short-term money market instruments.

It now seems unlikely that there will be a 'German SEC' until the end of next year at the earliest – not an insider dealing law, although under European Community Legislation the latter should have been on the statute book by this summer.

The explanation for the delay is that there was a personnel change within the finance ministry in the early spring: the relevant official left without having produced a draft of the legislation required to set up an "SEC" and introduce an insider dealing law.

It was only by the late summer that such a blue-print had been produced, thereby providing a basis for haggling between Bonn and the Länder

the states which at present have responsibility for market regulation – but ensuring that virtually nothing of the original Waigel programme would be in place by the original deadline.

The only part of the package which will come into being anywhere near on schedule is the move to create a Deutsche Börse – a German stock exchange. A new holding company will be formed which will buy the Deutsche Terminkörbe (DTK) – Germany's screen-based futures and options exchange and the Deutscher Kassenschein, the settlements organisation.

The move will not end the particularism which has damaged the German securities markets: there will still be eight stock exchanges in Germany, competing with one another and quoting different prices for the same stock, thus splintering liquidity and transparency. But internal rivalries have been overcome to the extent that the seven smaller Bourses – in Düsseldorf, Munich, Hamburg, Hanover, Bremen, Stuttgart

but would ultimately be introduced to all exchanges. He said it was new technology which had helped overcome some of the smaller exchanges' antagonism towards Frankfurt's plans, in particular the bid trading system introduced in April 1991. This now accounts for 30 per cent of turnover in the 30 most frequently traded stocks, bringing new business to the smaller exchanges as the market is screen-based and therefore not tied to Frankfurt.

Germany now claims one of the more sophisticated stock-market structures in Europe, providing one-stop shopping and settlement for investors wanting to buy equities and derivatives. But is this enough?

As Mr Rolf Breuer, the Deutsche Bank main board director who will be the first chairman of the Deutsche Börse, said in early October as final agreement was announced after three years of negotiations, the structure of the new entity reflects the realisation that all the exchanges should work together for their common good.

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He cited in particular the development of new technology, which would be too expensive for the seven smaller bourses to finance on their own

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that insider dealing is still not a crime. The objective now is to see the necessary legislation in place next year.

Mr Friedrich von Metzler, current chairman of the Frankfurt Stock Exchange and son of an old Frankfurt banking family, is candid about what still has to be done. With the move to a Deutsche Börse, he says that Germany is "setting the ground for future developments".

Steadily and surely, he and Breuer and other determined Frankfurt financiers are building the institutional infrastructure essential if Finanzplatz Frankfurt is to become on a par with London, New York and Tokyo – or even to achieve the more modest objective of establishing a clear lead ahead of the other continental European financial centres.

Ultimately, the institutional reforms will do no good without significant cultural changes: there are only 600 or so German companies quoted on the market, and most of these cannot be taken over – or are not even managed with the interests of shareholders put ahead of other considerations. Equity is still a far less favoured source of finance than bank debt, and private investors prefer to put their savings in bonds rather than shares. It is often said that the average German family spends more money each year on flowers than shares. The recent dire performance of the German share market – down 16 per cent in the third quarter – is not going to change this. Nor is the founding of the Deutsche Börse or the opening of a new regulatory body sometime next year or the year after.

WestLB is a growing force on the public banking scene and is now helping to reshape the sector

## A Ruhr-based powerhouse

**M**R EDZARD REUTER, chief executive of Daimler Benz and Mr Hilmar Kopper, chief executive of Deutsche Bank, together with Mr Wolfgang Schieren, chairman of the supervisory board at the Allianz insurance colossus, are the three most powerful businessmen in Germany.

A strong candidate for the fourth most powerful is Mr Friedel Neuber, chief executive of the Westdeutsche Landesbank Girozentrale (WestLB). This institution's *raison d'être* is to act as house bank to the government of North-Rhein Westphalia and to act as umbrella organisation to the region's savings bank – but under Neuber, the Düsseldorf-based WestLB has become considerably more than that.

It is a Ruhr-based powerhouse whose controversial manoeuvres are helping to reshape the public banking sector. It pursues an aggressive industrial policy and – depending on the way the league-table is calculated – it is Germany's third or fourth biggest bank, a clear rival to Commerzbank and the two big Bavarian private sector banks in terms of size.

It has also moved aggressively overseas, linking up with Standard Chartered of London in 1989 in a bid to boost its investment banking and pan-European activities.

Since the beginning of the year, the bank has bought a 15 per cent holding in Autania, a machinery company; a 10 per cent holding in the Asko retail group; a 20 per cent stake in Harpener.

More recently, it and its LTV travel associate bought a 90

per cent stake in the UK Thomas Cook travel company and WestLB bid to acquire a 30 per cent stake in Touristik Union International (TUI), a Hanover-based travel company.

Other large industrial holdings include 32 per cent plus of Preussag, the steel and engineering group, 10 per cent of Deutsche Babcock, and 13 per cent of Hoesch, the steel group, which allowed the bank to play a pivotal role in the hostile (by German standards) acquisition of the company by Krupp, a rival steel-group from elsewhere on the Ruhr.

Altogether, the bank is said to have spent DM1.6bn on industrial acquisitions since 1991.

**R**ECENTLY, Mr Neuber brushed aside criticism that he was pursuing an industrial policy for its own sake.

At a conference on Frankfurt in late September, he said that the sole criteria for investments in industrial companies was – as in other areas of the business – whether they would yield a good return.

"We can't afford to make industrial investments for the long term unless they are going to generate a satisfactory return," he said.

He took the example of the bank's engagement in the travel industry. It took its stake in Lufttransport Union (LTU) in 1989 when the family owners of this Düsseldorf-based charter-flight operator were seeking a financial partner.

More recent acquisitions – of Thomas Cook and the planned purchase of a stake in TUI – are designed to strengthen LTU's position in

the European market by inducing "vertical integration" with tour operators and travel agents.

With Hoesch/Krupp, WestLB was merely assisting in a process of necessary rationalisation for the German steel industry in the face of pan-European competition. Neuber said, it supported the controversial scheme out of conviction that a merger was economically necessary, he argued.

The criticism WestLB has received in connection with these purchases is as nothing when compared to the outcry which has accompanied the bank's attempts to expand its influence in the public banking sector of northern Germany – and since reunification two years ago, in eastern Germany too.

"Wild-west politics," is how Peter Fischer, economics minister of the state of Lower Saxony described WestLB's attempts to get control of the Landesbank Schleswig-Holstein in Kiel.

He went so far as to accuse Neuber of meddling with the investment plans of Hanover-based Preussag (30 per cent plus owned by WestLB) as a means of putting pressure on Norddeutsche Landesbank Girozentrale (NLD) – the Landesbank for Lower Saxony, based in the state capital of Hanover) to withdraw a rival bid for a stake in the Kiel-based bank.

The accusation was sharply rejected, the battle continued. The Hanover-based NDLB has won the right to run the Landesbank functions of two east German Länder: Sachsen-Anhalt and (from the begin-

ning of next year) Mecklenburg-Vorpommern.

Formally, no decision has been reached over Kiel, but three out of five members of the Schleswig-Holstein's management board resigned in early June after it appeared likely that a stake of slightly less than 50 per cent would go to Düsseldorf and not Hanover.

True to form, WestLB has also been active in the rationalisation of the Landesbanken in southern Germany. Its original bid to assimilate Helaba, the Hessen central bank, was rejected some years ago.

This summer WestLB and the SüdwestLB (the Stuttgart-based Landesbank for Baden-Württemberg) defeated a rival bid from Helaba to win approval to buy a 50 per cent stake in the Mainz-based Landesbank Rheinland-Pfalz.

The SüdwestLB itself took a 25 per cent stake in the Landesbank Sachsen Girozentrale, the new Leipzig-based central bank for Saxony.

Whether Neuber and the WestLB are able to continue their controversial activities – in German industry as much as in public-sector banking – depends on Germany's banking authorities. Tough new capital adequacy rules are to be introduced next year.

WestLB will be able to comply with these easily if it is allowed to have access to the equity of a housing finance subsidiary it bought from the government of North Rhein Westphalia last year.

It is not approved, it is unlikely that Neuber will be quite so expansionist or aggressive in the future.

David Waller

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Following the excellent figures in LAF '91 (the German survey among decision-makers) there was further confirmation of Handelsblatt's position as Germany's business and financial daily newspaper in the EBRS '91 (European Business Readership Survey 1991). Asked which publications they

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Senior executives (Germany) "Important Business Reading" Universe: 50,677

Publication	Coverage (%)
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Die Welt	4
Süddeutsche Ztg.	6

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## GERMANY 6

Germany's insurance industry is the largest in Europe with premiums of DM168bn last year

## Insurers face surprising turmoil

FOR decades, Germany's big insurance companies - dominated by the Allianz colossus - have enjoyed good profits and have benefited from relative immunity from competition.

But in the space of a couple of years, competition has intensified and German insurers - facing uncharacteristic turmoil - have joined the ranks of other insurance companies around the world which rely on investment business to make a profit.

A turning point - for the perceptions of investors in the German insurance industry - came in late July when Allianz, the Munich-based insurance giant announced an underwriting loss of DM1.78bn for 1991, compared to a profit of DM182m for the previous year. This was worse than expected and the shares fell by 3 per cent on the day of the press conference. But later that week the Deutsche Bank's research arm questioned Allianz's accounting for its east German acquisition and the

shares fell further.

In total, the Allianz share price has fallen by a quarter since the beginning of June. The share is the single largest on the German stock market, accounting for more than 10 per cent of DAX 30-index of large companies, and its poor performance has helped drag the market as a whole down by 16 per cent in the third quarter of the year.

Disillusion with Allianz is largely due to the problems the company is having with two recent acquisitions: of Deutsche Versicherungs, the former east German state monopoly acquired for DM711m and Fireman's Fund, the US insurer bought in 1990.

Another factor is the changing shape of the German market as a whole. By 1994, a

series of European Community insurance directives must be implemented in member-states. In Germany, the effect of the directives will be to introduce price competition into a number of hitherto protected - and highly profitable sectors of the market, predominantly in the

EC directives will bring intense competition to a once-protected market

personal sector. In theory, this should open the German market to competition from non-German insurers, including the British who are reputed to have the best designed products in Europe.

So far, the only interest shown by foreign companies is

from the French: the Victoire subsidiary of the Suez French financial and industrial group took control of Colonia - one of Germany's largest insurance groups - in 1989 and negotiations are underway to sell the stake on to Union des Assurances de Paris, another French group.

More recently, Assurances Générales de France (AGF), another large French group, bought up a 25 per cent stake in Aachener und Münchener Beteiligungs (AMB), Germany's second largest insurance group. After a ferocious battle, the French company earlier this year won the right to have the full voting rights attached to its stake and boardroom representation at the German company, whilst AMB's former chief executive

was obliged to resign.

In practice, the lack of access to distribution channels means that competition will intensify between domestic institutions which have hitherto not had to compete with one another on price, at least, not in personal business sectors of the market. Where there has been price competition, for example in industrial risks markets, losses have been steep for a number of years.

Added impetus to competition will come from the banking sector. For decades, banks have operated marketing agreements with insurance companies but their engagement in the market has intensified over the last 18 months. Within this time, Allianz has emerged as a 22.3 per cent shareholder in Dresdner Bank,

Germany's second biggest bank - and Deutsche Bank has this summer made two significant investments in the insurance market.

Deutsche bought a 30 per cent stake in Gerling, the largest independently owned insurer in Germany and has -

A battle of the giants is forecast among the sector's leaders

if market rumours are to be believed - an option to buy the remaining stake. It also bought Deutscher Herold, an insurance company specialising in private client business. The total outlay could be as much as DM2bn, although the bank will not comment on the

price.

The latest moves have given rise to stories about a "battle of the giants" between the Allianz/Dresdner axis on the one hand, and Deutsche/Herold/Gerling on the other. Both sides dismiss this interpretation, Deutsche saying that the Herold purchase is consistent with long-held plans to strengthen its investment services for its private clients.

The rationale for the Gerling purchase is less clear, Deutsche saying that it is an investment rather than an excursion into mainstream insurance business. However, the bank has clearly not ruled out an all-out assault into the industrial insurance market at a later date. This was implicitly recognised by Germany's cartel authorities this September

when they dropped their insistence that Allianz should scale back its 22.3 per cent stake in Dresdner, saying that competition was intensifying across the board in Germany's insurance market. Allianz and Deutsche, the two most powerful financial institutions in Germany, show by their recent moves that the concept of "allfinanz" - co-operation between banks and insurance companies - has its followers in Germany. They have not been discouraged by AMB's purchase of a majority stake in the BRG Bank in 1987.

The bank was supposed to bring opportunities for cross-selling between banking and insurance products. Instead, it has cost the parent insurer nearly DM3bn as the bank encountered one serious problem after another. The bank is on the verge of being sold to Crédit Lyonnais of France as part of the deal which has brought reconciliation between AMB and AGF.

David Waller

The attractions of Germany as an investment location are shrinking

## Foreign competitors use cost advantage to win market share

GERMAN INDUSTRY'S argument is straightforward enough: goods bearing the "Made in Germany" label no longer earn a big enough premium to pay for the luxurious lifestyle to which the west has grown accustomed, and to which the east aspires. Everything - pay, taxes, energy, holidays, environmental protection, education, social services and capital - is too expensive.

Germans stay at school longer, cost more to employ, have more holidays, work shorter hours and retire earlier than virtually all their international competitors.

Even when they are sick, Germans stay in hospital for more than twice as long as

their British neighbours.

As a result, international competitors are using their cost advantages to steal market share from Germany, and the attractions of *Standard Deutschland* - as a country in which to invest and manufacture - are shrinking, especially for German companies.

The main options for regaining lost competitiveness are clear to business leaders: either reduce the whole of industry's cost-base or move out.

The tendency so far has been to side-step the enormous difficulties of squeezing concessions out of prevaricating politicians and hard-line trade union leaders and to take the direct route abroad instead.

The net result has been an extraordinary escalation in capital investment abroad which has taken the annual total from an average DM5bn to more than DM30bn in the past 10 years. The long-term average of foreign direct investment in Germany has been a little over DM4bn.

While a large part of the rise in German foreign investment can be explained by the need for German industry to internationalise in the wake of the Japanese and others, and by the exploitation of opportunities opened up by the development of the European Community into a borderless "single market," there is evidence enough to show that it is no longer economic to manufacture a widening range of products in Germany.

Recent examples of strategic shifts include the case of vehicle components maker Hella, which announced earlier this month that it was to open a factory in Pamplona, Spain.

The company, a typical *Mittelstand* employer of 2,000 inside Germany, and mainly dependent on orders from Volkswagen, had the choice either of setting up in Spain to supply parts for VW's Polo output which is being concentrated in Spain, or lose the work to a local supplier. There is no suggestion yet that the

The options are to cut the whole of industry's cost-base or move out

switch will cost jobs in Germany. However, 1,000 Nuremberg workers will lose their jobs following Olivetti's announcement that it is to cease making computers in Germany.

As an explanation, the Italian group said the factory closure would "bring a considerable improvement in the competitiveness of our product range".

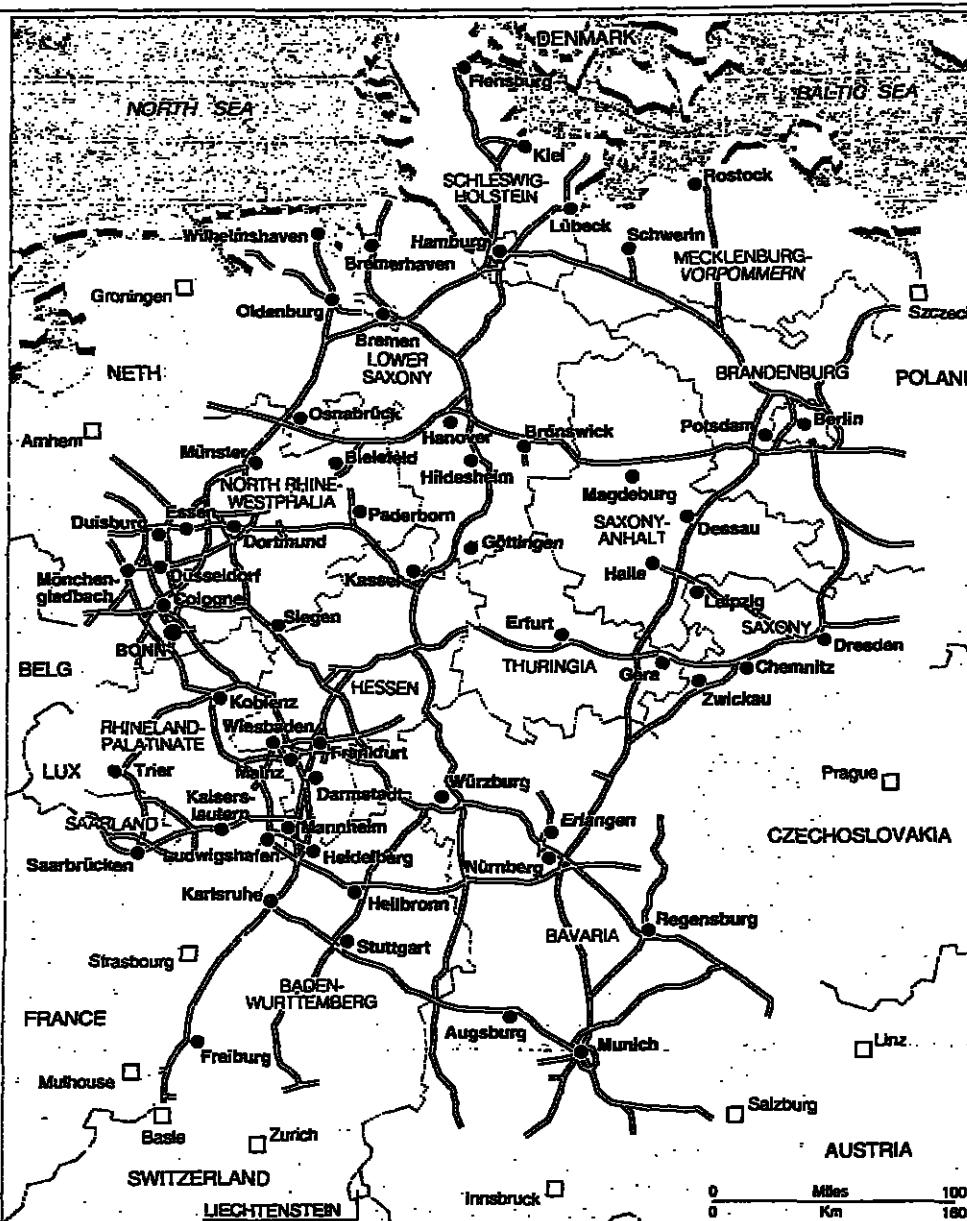
There have been many similar cases in the past 12 months. Robert Bosch, the country's largest vehicle parts maker, has shunned car radio loud-speaker production to south-east Asia, Mexico and Portugal, where labour is cheaper, at the cost of 1,500 jobs in Hilleshheim.

Chemicals giant BASF is shifting large chunks of its processing from Germany to the Netherlands, mainly because of the immense costs of fulfilling domestic environmental requirements and the delays entailed in negotiating for planning permission.

Members of the chemical industry association, which this year face an average 30 per cent fall in profits, claim that total environmental costs of around DM8bn a year are more than 50 per cent higher than those in other EC countries.

In the past six months the threat of recession and the dawning realisation of the scale of the economic burdens taken on with unification have temporarily diverted attention from the on-off 15-year debate over the future of *Standard Deutschland*.

However, the shock-effect of these two new problems - driven home mainly by a raft of huge job losses in the west this year and the failure of the eastern economy to respond significantly to massive cash injections - could hold the key to a resolution of the lon-



Everything in Germany - pay, taxes, energy, education, social services and capital - is too expensive. Germans also take the longest holidays and work the shortest hours of their peers in other industrial countries. See also the article on demographic trends: facing page.

ger-term challenges facing German industry.

In the context of a so-called "solidarity pact" to aid recovery in the east, IG Metall, the elite engineering trade union has offered tentatively to accept a five-year pay deal which merely preserves the real value of wages, in place of the usual inflation-plus formula.

While the union attached many strings to the proposal, it suggests that appeals for a change of direction in pay policy may be having an effect. Employers have blamed inflationary pay deals in the past two years for the current round of job cuts which has hit engineers especially hard.

At Daimler-Benz, the country's leading company, for example, almost 30,000 people are to lose their jobs in the

vehicles and aerospace divisions alone.

Mainly under the influence of recessionary pressures, the government has committed itself to strict control of state spending which will limit federal demands on capital markets and prevent increases in social welfare and other levies on industry. A programme to reduce health service subsidies by DM10bn a year will also contribute.

Marginal rates of corporate taxation are to be reduced by five percentage points, compensatory reliefs will ease the burden of costs to industry stemming from environmental legislation, and partial privatisation of state authorities such as Deutsche Telekom should also lead to greater competition and long-term cost benefits. As for the high cost of

capital, it now seems likely that once the Bundesbank is convinced that wage negotiations are set on a more rational basis and the government can deliver on its promises to cut spending, then it will lower interest rates from their present near-record levels.

The process has only just started, and there are many other delicate issues yet to be broached, such as regional pay differentials, working times and holiday entitlements. But the simple fact that government, employers and employees have in effect undertaken to review the infrastructure of *Standard Deutschland*, with concrete measures either proposed or already introduced, offers some grounds for optimism.

Christopher Parkes

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## GERMANY 7

Population trends: births down 40 per cent in the east

## Imbalance between young and old

**E**CONOMICALLY speaking, a child is a costly luxury. No longer do people need to breed to ensure that they are looked after in old age or to engender a home-grown workforce for the fields. Emotional factors alone ensure that people continue to have children.

This is a phenomenon of all urbanised, modern industrial societies, but the consequences are felt particularly acutely in Germany, the third least fertile country in the European Community after Italy and Spain. Germany's population is growing old, and it would be shrinking but for an influx of foreigners.

Expressed in pictorial form, a population ought to look like a pyramid: a broad base of

births in the former east Germany.

A combination of social unease, migration to the western part of Germany, plus growing job opportunities, has meant that young women in the ex-DDR have been reluctant to have children, and hospitals in the east report a surge in demand for abortions and sterilisations.

The resulting demographic problem is often cited as one of the more serious difficulties facing Germany in the years to come: Germans have the highest wages, take the longest holidays, work the shortest hours of their peers in other industrial countries – and to cap it all there are set to be fewer people at work to support a disproportionately large elderly population.

The government has taken a number of steps to mitigate the problem, for example raising the retirement age and adjusting old-age healthcare insurance regulations.

But this is not enough: in order to shore up the imbalance, population pyramid, Germany will have to rely more heavily on imported labour.

Germany's population now looks more like a Christmas tree, the pyramid thinned out by the effects of two world wars, but 40 years from now, the picture will look less balanced: an inverse pyramid where relatively few young people support layers of older people.

"For the present generation simply to replace itself, 40 per cent of all married couples need to have three or more children," says Professor Charlotte Höhn, director of the Wiesbaden-based Federal Institute for Population Research. "But in a society such as ours, most people want to have one child – or two, at the most."

Germany's reunification has highlighted the growing numerical imbalance between young and old: in 1991, the number of births in reunited Germany fell back by 8.5 per cent, from 906,000 in 1990 to 826,000, a drop caused by a huge, 40 per cent reduction of

births in the former east Germany.

Although not German citizens, these foreigners – predominantly Turks – have come to look on Germany as home and, having paid their taxes, are entitled to the same care in old age as other Germans.

Senior industrialists already recognise the imperative of attracting more skilled immigrants into Germany: some 230,000 apprenticeships are unfilled and in united Germany there are over 400,000 job vacancies for skilled manual workers.

Employers and employee associations bend over backwards to say they would welcome qualified applicants for these jobs, whatever their nationality, and Mr Rudolf Stumpf, personnel director of BMW, has said that the car

company may as well shut it if it were not for its foreign workers. At a time when the number of ethnic Germans will be shrinking, this growth may exacerbate social tensions which are already to be felt in the early 1990s in the attacks against asylum homes in the east of Germany.

It is an irony that asylum seekers are not allowed to work even though there would be jobs for them: they are obliged to sit around doing nothing for months at the state's expense while they wait for a decision on their asylum application, serving to stoke up resentments within the communities in the midst of whom they are billeted.

As Mr Heiner Geissler, deputy chairman of the ruling CDU-CSU coalition pointed out this summer in the wake of the attacks, more tolerance is required and Germans will have to get used to living and working in an increasingly multi-racial society.

**Germans will have to get used to living in an increasingly multi-racial society**

David Waller

The east German labour market: planners take a more creative approach

## Rebuilding from the ruins

**E**ARLY in 1991, at the end of the unification party, west German workers had their first taste of what was to come. The western economy was motoring along, unemployment was falling and new jobs were being created by the thousand. Contributions to unemployment insurance, fixed at 4.3 per cent of gross pay, were in line for a fall to around 3.5 per cent. But the truth about the communists' "full-employment" society could not be concealed for long.

Contributions instead rose to 6.8 per cent to cover the enormous costs of managing the east's labour market, and although they have since fallen to 6.3 per cent, no further cuts can be expected.

The Federal Labour Office, deprived of subsidies from federal funds by the finance ministry's budget-capping decree, still confronts an intractable situation in the former GDR while conditions are deteriorating rapidly in the west.

Unemployment there has risen by 10 per cent this year, and the creation of new jobs has stopped. In the east, meanwhile, at least two out of every five jobs has been lost under the twin influences of the collapsed market in eastern Europe and the radical restructuring of the old east German combines by the Treuhand privatisation agency.

Official unemployment of around 13 per cent masks a mass of "hidden" jobless who have been retired early, diverted into training projects, on short-time, or working in so-called work-creation schemes.

Last year, when the labour office was concerned mainly with holding the fort, it poured almost 70 per cent of the funds it spent in the east into passive measures: the dole, pay for short-time workers who, in the main, did nothing except clock-on every day, and pre-pension compensation for people taking early retirement. This year, however, it is adopting a more creative approach.

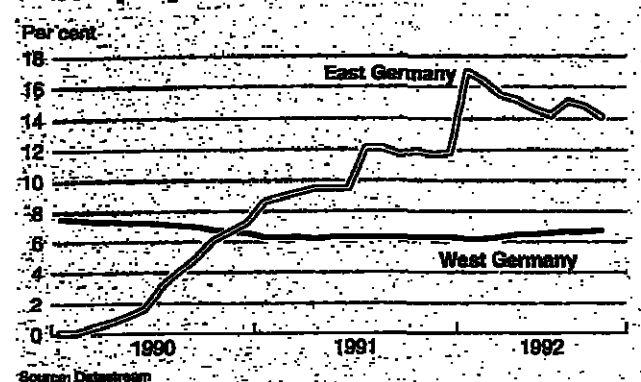
This year, almost exactly half the labour office's DM85bn budget will be spent in the east, home to 20 per cent of the total population. While unem-

### East Germany labour market policies

DM billion	1991 total	1992 total
Active policies		
Work creation	3.1	18.0
Education	4.7	8.7
Rehabilitation	0.1	0.8
Vocational training	0.4	1.7
Floating reserve	1.1	3.5
Passive policies		
Unemployment benefit	7.8	21.3
Short-time pay	10.0	8.2
Early retirement pay	2.7	8.9

Source: Federal Labour Office/IFM, Cologne

### Unemployment



Source: Destatis



Plastic sheet production line at a petrochemical plant in Leuna, east Germany

ployment pay will absorb almost a quarter of funds available, the share allocated to all such purely defensive measures will fall below 50 per cent, with resultant gains for "active" projects such as education and training and work creation schemes.

Although such projects seldom involve conventionally productive work, and focus mainly on tasks such as cleaning up the environmental mess left by the communists, they keep people within the active labour market.

According to Mr Heinrich Franke, head of the labour office, the will to learn and work is "extraordinarily" strong, rather more than in the west, although all too often freshly-trained workers find no job at the end of their courses.

Spending on work creation has more than doubled this year to DM7.3bn, while a similar proportional increase has diverted DM10bn into further education and vocational training. Overall, active measures account for 43 per cent of spending, compared with 27 per cent last year.

This is still not enough, according to Mr Hans-Peter Kloe, an expert from the IW economics research institute in Cologne. Even though it is above the OECD average of 38 per cent, he says, the "rich uncle" approach, in which the west simply pours in funds for mainly defensive policies, will pre-programme inactivity into the eastern German way of life, and ossify the hard-core of unemployment.

Urging programmes to

increase worker mobility and unconventional measures such as lump-sum one-off payments instead of weekly unemployment pay to give the jobless a chance of setting up an independent business, Mr Kloe may be asking too much of a labour market which is already infected with some of the rigidities established in the west, and too much of a government committed to medium-term budgetary restraint.

Western unions, which have been steadily losing membership in their home territory, were quick to recruit in the east, where they won considerable benefits for their new members.

Basic wage deals, guaranteeing pay parity with the west by 1994, have been struck in many important industries. As a

result, even though average productivity in the east is around 30 per cent of west German levels, labour costs are already higher than in the US. Meanwhile, blanket pay and conditions packages, mirroring those in the west, make virtually no allowances for regional or skill differences. Some 25 years ago there was a 25 per cent differential between the basic pay of engineering workers employed in various parts of west Germany. It is now 2 per cent. An unskilled worker who earned 73 per cent of the skilled rate, now earns 86 per cent.

According to recent estimates, 2m new and permanent jobs have to be created in the east in the medium-term as a pre-condition for the establishment of a viable, self-supporting economy.

There are few immediate attractions for an international business community which is reining in investment even in established markets. Nor is there any of increased contributions from the not-so-rich uncle in Bonn, which is already chafing at the proliferation of work creation schemes. Each place costs around DM24,000 per man per year, compared with DM15,000 for unemployment benefit.

But Mr Franke, who has lived with the eastern labour market crisis from the start, stoutly defends job creation as his main management tool. "As long as business does not invest, we must hold the bridge of work creation," he said recently.

Christopher Parkes

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Source: MEDIA-ANALYSIS 1992/T (AG.MA). Syndicated study by order of ARD, ZDF, SAT 1, RTL plus and about 150 magazines and 40 daily newspapers - among others Frankfurter Allgemeine Zeitung, DIE WELT, Handelsblatt and Süddeutsche Zeitung.



## GERMANY 8

Vehicle companies are either shedding staff, cutting back production, putting workers on short time, or doing all three

## Carmakers under pressure

**G**ERMANY'S motor industry, a vital part of its export-oriented economy, is slowing down in more ways than one. Not only do more vehicles on the roads mean more congestion and more tailbacks, thus decreasing drivers' ability to hurtle along as fast as they please, but world markets are coming under such severe pressures that German carmakers are having to take drastic action to remain competitive.

German car companies are either shedding staff, cutting back production, putting workers on short time, or doing all three. Mercedes-Benz, part of the Daimler-Benz concern, is reducing its domestic workforce by 10,500 people this year and is producing fewer cars.

At the volume end of the industry, Ford-Werke (owned by Ford Motor of the US) is cutting production at its Cologne plant as part of a Europe-wide retrenchment by the group.

Volkswagen, Opel (part of General Motors of the US), and BMW are also reducing labour

and trying to overcome the high-cost burdens suffered by German producers.

Struggling the hardest, however, is Porsche, the maker of luxury sports cars which is finding the combination of weak foreign markets and the extra pressures imposed by the latest currency turbulence almost impossible to bear. It is cutting its workforce by nearly

**More job losses are inevitable, as labour costs in Germany are among the highest in the world**

2,000 people this year, having sold only 23,000 of its expensive models in the financial year to July.

None of these developments come entirely as a surprise. It has long been recognised that German producers' costs are too high in relation to competitors in the rest of Europe and Japan. Labour costs in Germany are among the highest in the world. They are around a

third higher than in Japan, the gap being accounted for by the high level of social security and welfare costs met by employers rather than by wages, which are similar in the two countries.

Compared with France, Italy, and the UK, the difference is even greater; wages are lower in these countries and social benefits worth much less.

In past years, German companies could rely on superior productivity to offset the impact of high labour and other costs. But this has now become almost impossible as competitors have cut their labour forces, in contrast to the employment increases now being reversed in Germany, and have striven to become more productive by investing heavily and introducing new production methods.

Moreover, the supremely efficient Japanese are now making cars at plants in Europe, notably in the UK.

Productivity in France and Britain rose much faster in the 1980s than that in the German motor industry.

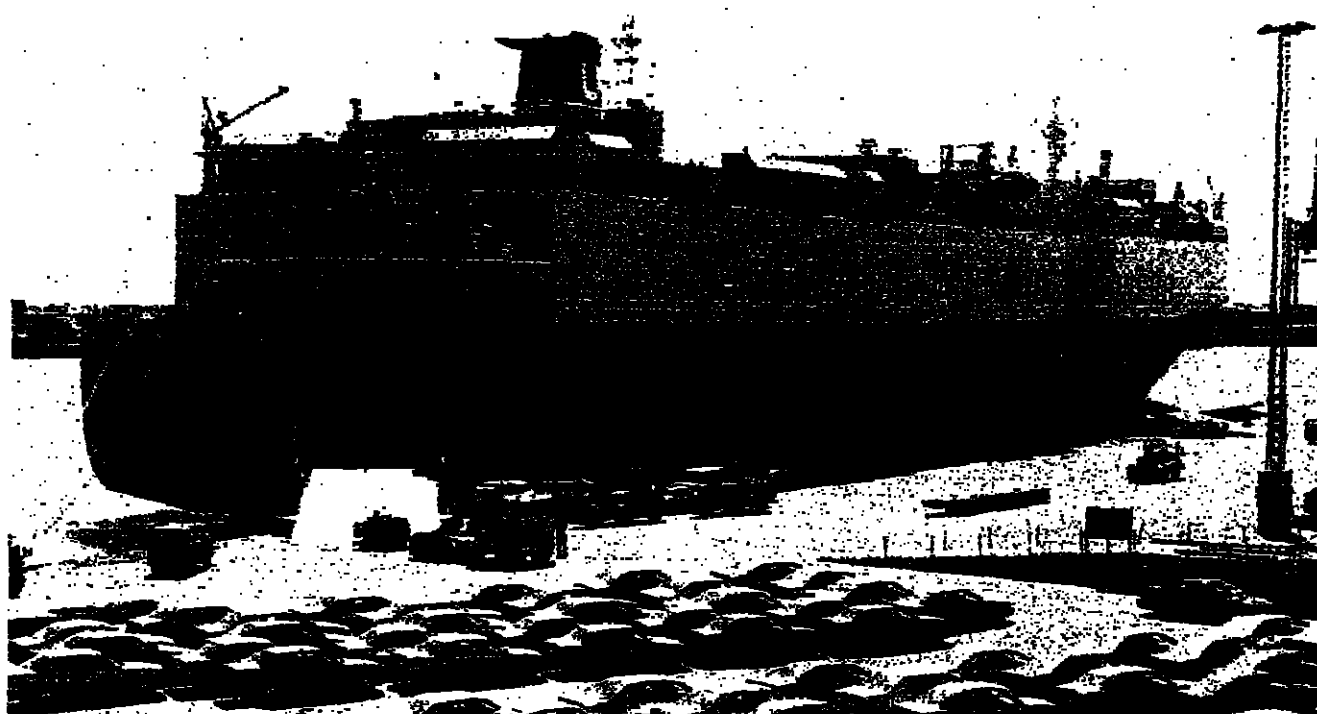
At the start of the 1980s, Germany still topped the European productivity table. France's productivity was 91 per cent of that in Germany, with Italy at 74 per cent, and the UK (before the full effect of Japanese investment) at only 61 per cent.

But the German industry was about 50 per cent behind Japan's productivity. German trade unions recognise the severity of the situation, but there is no way that they can prevent more job losses.

Moreover, the trend towards shorter working weeks impinges further on German companies' profitability.

According to the German motor industry association (VDA), a Japanese automobile worker puts in an average 800 hours a year more than his German rival, while a US worker puts in 550 hours more, and one in the UK works 350 hours more.

The Spanish employee notches up 250 hours more than in Germany, the Italian 150 more, and the French 100 more.



Dockside line-up: cars for export are lined up at Bremerhaven, but worries are growing over stagnating sales abroad

Against the gloomy background of rising costs, stagnating sales at home and abroad, and gyrating currencies, it is small wonder that the German media has been carrying dire prognostications of things to come.

"The auto goes downhill" was the headline on a commentary in Süddeutsche Zeitung, the serious daily newspaper. It chided German motor compa-

nies for being too late with the introduction of lean production methods and for concentrating too much in boom times on expensively-equipped models "as if customers were prepared indefinitely to spend more and more money on cars."

Clearly, they are not. Recession in foreign markets, intense competition from the Japanese, and the slackening of domestic demand after the

powerful impetus provided by unification have subjected German car manufacturers to extreme pressures. Hence the pessimistic title of an article in Stern, the popular weekly magazine: "The decline of Germany's showcase sector."

After several years of steadily rising sales, topped off with the turnover gains produced by German unity, the car companies and their work-

ers are bracing themselves for an unfamiliar phase of austerity.

Since the motor industry in its widest sense - including suppliers, dealers, repair, and other activities - accounts for about a fifth of gross national product, the consequences will be felt throughout the economy.

Andrew Fisher

For the construction industry, the task of rebuilding east Germany is immense, reports Andrew Fisher

## A late 20th century bonanza

**L**IKE a scene from a Grimm's fairy tale, a quaint little grey house with a first floor bay window stands near the centre of Zwickau in east Germany. It could do with some renovation, but is serviceable enough to house a dentist, a cosmetics store, and the local tenants' association.

There is no building next door, only the ghost of the house that used to be there. Its outline, including the steeply sloped roof, is clearly visible on the wall that once separated the two houses. Opposite are ugly blocks of flats. Nearby, stands what was once an elegant pre-war office building, its rusting window frames empty of glass and its plaster peeling.

Zwickau itself, in the state of Saxony, is a handsome town, now being spruced up as the prosperity - emanating from the new Volkswagen plant nearby - begins to have an effect. But the mixture of the charmingly historic, the

irredeemably ugly, and the totally rundown is common in east Germany. Some old buildings survived, many as virtual ruins, through sheer neglect and lack of resources, while others were torn down to make way for utilitarian housing, roads, or public buildings.

For the construction industry, the task of rebuilding east Germany amounts to a late 20th century bonanza. According to a recent study by Ifo, the respected Munich-based economic research institute, it

**In east Germany, the surge in orders for new homes is only just beginning**

will cost some DM2,400bn (\$1,600bn) by the year 2005 to bring living conditions in east Germany up to west German standards.

All this amounts to DM158bn a year, starting from 1991, and represents DM9,800

per east German inhabitant per year.

By far the biggest slice of the total sum will be required for housing, both to improve existing homes and build new ones. Ifo reckons this will account for DM975bn (the figures are all based on 1990 prices); every year, around 380,000 homes will have to be modernised and more than 140,000 new ones built.

Making up most of the remaining construction needs in the east will be industry (DM528bn, including energy), transport (DM403bn), and environmental protection (DM174bn). The sums are enormous, and the work is already

in full swing. In the pretty town of Schneeberg, a short drive from Zwickau along the old silver route in the Erzgebirge (ore mountains), restoration work has been completed on the attractive white and beige town hall with its crenellated tower. But a whole street near the main square has been ripped open for new pipes to be installed and the massive church which dominates the town is filled with scaffolding inside and has long cracks in its outside tower walls.

The rash of building sites in towns, along roads, and in industrial areas - many old factories are being torn down to be replaced by new commer-

cial or production sites - holds out hope for the future on one hand and leads to chaos on the other. They are the visible aspect of the immense economic overhaul which east Germany is now undergoing.

Last year, new building investment there totalled DM36.4bn, equivalent to 12 per cent of the investment in western Germany.

The public sector is leading the way, followed by industry. In the housing sector, progress is much more restrained. As Commerzbank notes in a study of the sector, repair and modernisation work is moving ahead with the help of state

financial support, while little new housing is being built. This reflects low incomes in the east and fear of unemployment, as well as high interest rates and building price rises.

Investment in new apartment blocks is also unattractive since rents, now rising from the old heavily subsidised levels, are still too low to cover costs. Uncertainties over ownership and the debts of east German housing concerns are further dampeners.

Commerzbank expects housing investment to become more lively next year. But far more dynamic will be the industrial sector, supported by state financial help for new

investment in east Germany. Much of the growth will continue to be in the retail and service sectors - the big Quelle mail order concern, for instance, is building a DM1bn distribution centre near Leipzig - with the new owners of companies privatised by the Treuhand also investing.

Altogether, Commerzbank expects building investment in east Germany to grow by up to 20 per cent in real terms this year, with the sector having taken on the role of an economic locomotive. Private sector building investment will continue to be buoyant in 1993, but the public sector will continue to set the pace under pressure from the huge modernisation demands in transport, communications, energy,

**It may cost DM2,400bn to bring living conditions in east Germany up to west German standards**

and the environment. In west Germany, too, the building industry is an important prop for the economy, though the heady expansion rate is slackening. Because of the still unfulfilled demand for new housing and business construction, the bank estimates real growth of 4 per cent in west German building investment in 1992, followed by a marked easing to 1.5 per cent in 1993. With the tremendous inflow of people since 1987, mainly from east Germany and eastern Europe, about 1.8m new homes are needed. People want bigger and better homes as their incomes rise.

With the west German economy now slowing down, it is clear that the construction industry will be unable to keep on grabbing new business as merrily as before. But there is still enough economic strength to keep builders happy for some time yet. As for east Germany, the order surge is only just beginning there.

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## GERMANY 9



German riot police use batons to disperse around 300 leftists in Leipzig, after they smashed car windows and hurled fireworks and stones following a demonstration against a rally of neo-Nazis

The immigration issue: national self-confidence is wavering amid economic uncertainty, reports Christopher Parkes

## Tensions rise as the economy weakens

THERE is a popular belief in Germany fostered by social affairs experts, that the rise of the extreme right does not offer any danger to democracy.

Backed up by continuous assurances, notably from Chancellor Helmut Kohl, that Germany is "foreigner-friendly," it rings increasingly hollow as the tally of killings, fire-bombings, and less overt signs of xenophobia increases. The number of attacks by right-wing extremists rose more than five-fold in 1991, and is continuing to go up this year.

Although the level of violence has eased since the August riots in Rostock on the Baltic coast in the former GDR, the wave of antipathy rolls on. Swelled by regular media reports which splash headlines on the number of crimes committed by "foreigners," and politicians making capital out of the alleged costs of housing, feeding and processing refugees, it has developed a momentum which government has been unable to dissipate.

Most recent public attention has been focused on physical attacks on Roumanians and other registered asylum-seekers in eastern Germany, but the malaise has spread deeper and further.

The defacement of Jewish monuments and memorials is once again commonplace. The so-called Jewish barracks in the former Sachsenhausen concentration camp was burned down in late September.

Earlier this month, right-wing extremists attacked a Greek school in Wuppertal. Expatriate staff of foreign companies have been tutored on how to dress and behave to avoid abuse or worse.

Meanwhile, thousands of hapless asylum-seekers continue to press into Germany through gateways opened up

by the country's liberal asylum laws. Under the traditional interpretation of the so-called basic law, or constitution, anyone arriving in Germany asking for political asylum must be admitted and his or her case investigated.

This has long been interpreted as a *carte blanche* for economic refugees from all over the world to make a bid for a better life in Germany. The long-term steady flow has turned to a flood following unification, the collapse of the Soviet Union, the opening of Germany's eastern borders with Poland and Czechoslovakia, and war in the former Yugoslavia.

Recent monthly registrations of asylum-seekers have exceeded one a minute. By August the total for the year so far already matched the 256,000 who arrived in 1991. Forecasts of 400,000 at most during 1992 were revised upwards towards 500,000.

On today's acceptance rates, fewer than 5 per cent of the total will be allowed to remain as genuine asylum cases. But all will be processed through the lengthy and meticulous procedures set out by the interior ministry and the constitutional court.

All will be distributed around the country - each Land or region allocated assorted groups according to a strict quota system - and all will be housed, fed and clothed at an estimated monthly cost of DM1,400 each.

Debt-laden local authorities, struggling with a national housing shortage, and police and social services increasingly claim they can no longer cope.

Beyond the street battles, the signal failure of policy-makers and administrators to deal with the problem has led to widespread popular cynicism and loss of support for leaders

of all the mainstream parties.

Indications of possible future trends have included the winning of seats in the Schleswig-Holstein parliament by the racist German People's Union, and the installation of a powerful voting bloc in the Baden-Württemberg legislature for the far-right Republican party, led by Mr Franz Schönhuber, a former Waffen-SS officer.

While *vox pop* soundings suggest that the vast majority of Germans despise and are ashamed by the regular outbursts of violence, other, more detailed investigations show up considerable antipathy to foreigners. A recent study by the Cologne Institute of Empirical Psychology, which involved more than 2,000 people between the ages of 16 and 34, showed that a third admitted to being antagonistic towards non-Germans or at least harbouring xenophobic thoughts.

A finding that is possibly even more significant is that only 25 per cent of the sample believed there should be no discrimination of any kind against foreigners.

A broader sampling in early September by the respected Iflas Institute reported 25 per cent supporting repatriation of foreigners, and a good 50 per cent agreeing that "Germany belongs to the Germans."

The sheer volume of foreign faces, often concentrated in run-down, heavily-populated areas, and the proliferation of habits alien to the disciplined Germans, is producing unmanageable tensions at a time when the economy is weakening rapidly.

National self-confidence is wavering under the influences of economic uncertainty, the realisation that the dream of unification is a potential nightmare, and the impact of international condemnation of the

violence on Germans' self-esteem.

The reactions of national political leaders, far from countering the uncertainty, have in fact reflected it in magnified form. Wide cross-party consensus is essential for any change to the basic law, but until recently government and opposition policies have been in turmoil.

The three-party ruling coalition earlier this month healed its three-way split and agreed a compromise reform plan.

Returning to Bonn after the summer, the SPD leadership raised hopes of progress when it apparently gave up its long-standing ideological resistance to any reduction of refugees' rights.

Mr Björn Engholm, party chief, declared himself ready to negotiate with government on constitutional amendments. But within weeks the regional membership was pressing party leaders to change tack once again, and promising chancellor-candidate Mr Engholm an uncomfortable time at the next party assembly in November. But his discomfort will be minor compared with the tribulations of the beleaguered refugees.

As long as international and domestic economic conditions deteriorate and the flow of newcomers continues without clear initiatives from Bonn, so the potential among native Germans for resentment and violence seems likely to grow.

The so-called "asylum problem" has developed into Germany's most pressing domestic political and social challenge. It has fostered the re-emergence of the far right as a potent political power throughout the country and damaged the east's hopes of winning vital foreign investment.

It has also put the German people at odds with themselves - and the watching world.

## Tougher sentences urged on neo-Nazis

In east Germany, violent attacks against asylum-seekers have shifted to smaller towns, largely in the north where economic conditions are worse, reports Leslie Collett. Now there are pressures on the Bonn government to ban the east German neo-Nazi party, Deutsche Alternative

FRANK HUBNER, leader of the east German neo-Nazi Deutsche Alternative (DA), carefully inspects my business card and passport as he sits in the front seat of my car.

In the rear-view mirror I can see two of Hubner's large colleagues lingering in the back-ground. The 27-year-old leader's black hair is fashionably cropped and he wears an expensive-looking black leather jacket, shirt and trousers.

"You will be billed DM450 for a one-hour interview," he says, speaking softly. He certainly believes the popular image of a rabble-rousing fascist.

"It's for my loss of earnings during the time," he explains politely.

I reply that we do not pay for interviews. Did he only give them for money?

"It's a matter of principle," he says without blinking.

Hubner strolls back to the cramped flat he shares with a wife and baby in, ironically, Bertolt Brecht Strasse, named after the anti-Nazi German playwright. It is located in Sachsendorf, a sprawling housing district of Cottbus where militant right-wing youths on four consecutive nights last month hurled Molotov cocktails and stones at an adjoining hostel for asylum seekers.

Sachsendorf's endless rows of bleak pre-war apartment blocks are home to nearly 30,000 east Germans. Several thousand of them watched approvingly when the hostel was under siege.

Hubner's Nazi views are available to anyone who reads the *Brandenburger Beobachter*, the DA newspaper which bristles with crude racist propaganda and anti-semitic cartoons.

Security officials in Brandenburg state are convinced that he exerts a decisive influence on about 150 young DA supporters in the Cottbus area which borders on Poland. But in his public statements, Hubner appears reasonable, divorcing himself from the wave of violence against asylum seekers.

He is fully aware of the growing pressures on the Bonn government to ban the DA as a neo-Nazi party. This he wants to avoid at all cost, as the party would then be unable to contest future local east German elections.

The unbroken attacks against asylum seekers have shifted to smaller towns, largely in the north where economic conditions are worse. But Ms Simone Wendler, a politically-active resident of Sachsendorf said all the elements still exist for a revival of violence there.

This is so despite the fact that unemployment in Cottbus is lower than elsewhere and most young people have apprenticeships. The causes of the violence were not primarily economic she suggested.

"The GDR's past is the key to understanding the present,"

Ms Wendler says. She recalls the trial in Cottbus last year of a neo-Nazi accused of torching a youth hostel. He told the court that in history class they were taught that only the Communists were good and that other Germans were bad. This was a lie, the young man protested.

Many east Germans react similarly to the black-and-white view of the world which was pounded into them for more than 40 years. Hubner himself was imprisoned in 1986 as a militant skin-head and bought free by the

olds who threw stones at the hostels while falling to prosecute the neo-Nazi ideologists who stirred them up.

"But no-one in the German government appears willing to stand up and condemn the neo-Nazis on moral grounds," she complains.

Even the Christian Democratic Mayor of Cottbus, Waldemar Kleinschmidt, while condemning the attacks on asylum seekers, previously tried to woo over the rightwing extremists to democracy.

At the entrance to the hostel for asylum seekers - which formerly housed the families of Soviet army officers - one of the occupants had poignantly scrawled the misspelled words: *Asylant Gut* ("Asylum-seekers good").

Most of the 900 or more residents at the hostel are from Romania and Bulgaria of whom 80 per cent are gypsies.

After wading across the nearby Neisse river from Poland, a single word - *asyl* (asylum) - spoken to a German official, sufficed to get them into the hostel where they were given clothing, living quarters and money. A large family can receive up to DM450 a month which entices many east Germans who say they get no more in welfare payments.

Nearly 30 battered cars purchased by occupants of the hostel stood outside the gates along with several trucks being loaded with goods for Romania.

Across the broad Lipzker

Strasse, which last month separated the hostel from hundreds of rightwing assailants, are rows of German flats with flower boxes and neat curtains.

Michael Michelfelt and his wife Ulrike were visiting his mother in one of the flats. In the past, he said the asylum-seekers had rummaged through the garbage bins of the Germans in search of useable items. During the dry summer their children set fires between the rows of garages and frequently snatched the purses of elderly women.

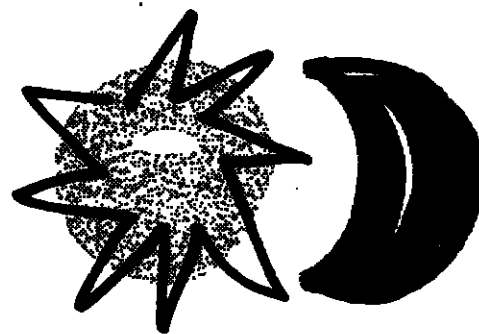
"Sometimes you catch yourself agreeing with some of the rightwing slogans against the asylum seekers," Ulrike admits.

She said the authorities would have to clamp down more forcefully on the extremists who were exploiting the dissatisfaction among young people. In fact, the Brandenburg authorities have taken a tougher line toward the neo-Nazis than officials in adjoining Mecklenburg-Vorpommern.

Günter Noack, who was loading tools into his car, said he and most other people in Sachsendorf disapproved of the attacks on the hostel.

"They were destroying material assets," he said, pausing briefly, "... and endangering lives. The asylum-seekers are people, too. But the government must stop them from pouring in and hand down tough sentences on the neo-Nazis," he says, reflecting a widely-held view in east Germany.

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DG BANK



GERMANY 10

THE EAST GERMAN ECONOMY

# Optimists repeatedly disappointed

EVERY quarterly period since last year brought optimistic government forecasts that the east German economy was about to touch bottom and would slowly begin to emerge from the trough.

But the calculated optimism did not alter the realities. In spite of DM150bn in transfer payments from west to east Germany this year, the east German economy continues to scrape along the bottom of the charts. The old state monopolies are being dismantled more quickly than new private enterprises can be erected.

Even lower unemployment figures of 1.1m last month (13.6 per cent) - 75,000 less than at the beginning of the year - were no cause for optimism. Real unemployment is well over 30 per cent.

More than 300,000 short-time workers produce little which can be sold in return for their German government-subsidised wage. Another 400,000 east Germans are kept off the unemployment rolls by publicly-financed job-creation programmes, which are to be abolished. Nearly 800,000 citizens receive pensions five years in advance of normal retirement age. Still another 500,000 east Germans have moved to west Germany to find work while 500,000 commute to jobs in the west.

It is the west German tax

payer, especially lower and medium-income groups, who bears the brunt of these social welfare payments which maintain consumption in east Germany. Small wonder that politicians speak of the urgent need to spread the growing burden of support for east Germany to all west Germans. This, however, will call for sacrifices which the Bonn govern-

## The outlook for the white elephants of east German industry is increasingly gloomy

ment, faced with elections in 1994, has been loath to demand.

The figures at the end of two years of unification are fairly grim. Gross domestic product in east Germany of nearly DM100bn in 1990 plummeted to DM50bn. Employment, which in the first half of 1991 still stood at 9.3m, fell to only 6m in the second half of this year.

As a result of the sharp rise in east German wages, from DM1,407 per worker to

DM2,735, competitiveness actually fell to 35 per cent of the west German level.

The Bundesbank put it optimistically when it said that despite improvements in some areas there was no evidence of a "self-sustaining recovery."

The German Institute for Economic Research (DIW) in Berlin observed that even growth in construction activity in east Germany, which was expected to be dramatic, turned out to be "disappointing."

In spite of a 200 per cent rise in demand for publicly-financed construction projects since the start of the year, actual investment in construction rose only 45 per cent. The gap was caused by the difficulties which inexperienced east German officials had in coping with highly-complex west German building regulations.

Private building activity has performed even worse, as a stroll through any of east Germany's major cities confirms. Construction is still hampered by the official ruling that the return of property to former owners takes precedence over



Costly environmental clean-ups are now required, following widespread industrial pollution in the former GDR

indemnifying them. Contested property cases clog the courts in east Germany and are the main reason that the building boom has been stifled.

East Germans place much of the blame for the massive deindustrialisation of their region at the doorstep of the Treuhand agency, which is responsible for privatising former state companies.

Yet the Treuhand's achievements are impressive. Nearly 9,500 companies out of the

agency's original 12,000 were sold, albeit frequently for a nominal price after the Treuhand assumed debts and environmental liabilities. Privatisation led to pledges of DM151.3bn in investments and guarantees for retaining 1.3m jobs.

Rescuing former state Kombinate (conglomerates) which were written off as basket cases only a half a year ago is now official Treuhand policy. It has no choice. Allowing them

to go under would eliminate more than 500 producers and 550,000 jobs, including virtually the entire chemical and machine-building industries.

Only a few months ago, Mrs Birgit Breuel, the Treuhand's president, scoffed at the idea that these companies might end up as wards of the state. But now senior members of the German government openly speak of the need to protect and support east German industries in much the same way as in the 1950s Volkswagen and Salzgitter remained state companies in west Germany until they were strong enough to stand on their own.

The Treuhand's debts, already expected to rise to DM250bn by the end of 1994, are almost certain to be a good deal higher, according to insiders at the agency. The outlook for the white elephants of east German industry appears gloomier than ever. Orders have dwindled to virtually nil at former Kombinate such as the sprawling Sket engineering plant in Magdeburg and the Takraf crane factory in Leipzig, which exported the bulk of

production to the former Soviet Union. Russia and the other CIS successor republics are unable to provide the counter-guarantees which would release DM15bn in Hermes export credit guarantees by the German government. Invariably, where the Treuhand has succeeded in privatising huge former state companies such as shipyards and

## The west German taxpayer bears the brunt of east German social welfare payments

steel mills, it has been an expensive procedure for the German taxpayer. In this month's sale of the Warnow shipyard, the heart of the east German shipbuilding industry, to Kvaerner of Norway for the largely symbolic price of DM1m, the Treuhand pledged to provide DM436m in investments to modernise the yard along with DM73m from the state of Mecklenburg-Vorpommern. In addition, the Treuhand agreed to compensate

Kvaerner for up to DM500m in possible losses over the coming four years. Industry sources said the Treuhand also will pay more than DM250m in Warnow debts as well as assuming liabilities for old contracts amounting to nearly DM600m. In return, Kvaerner agreed to invest DM36m and to retain 2,150 jobs in the shipyard. One knowledgeable German observer estimated that saving each one of the 8,000 jobs in east German shipbuilding up to 1995 will cost the taxpayer DM820,000.

The Treuhand has agreed to pay DM300m and the state of Brandenburg DM50m in assistance to Krupp so that it would take over and modernise the Eko steelworks at the Polish border. But Krupp, facing mounting losses of its own in steel production, showed signs of losing interest in the deal, which in any event would need approval by the EC.

Agriculture in east Germany has fared no better than industry. The former collective farms are struggling with debt and the German government shows little willingness to relieve them of the burden.

Small-scale German farmers in the west, a potent lobby, do not want competition from large, potentially efficient co-operative farms in the east.

Leslie Colitt

## Leslie Colitt examines prospects for trade with eastern Europe

# Hopes remain long-term

ALTHOUGH Germany's historically-close trading links with Russia and Ukraine have suffered, German companies are preparing for the time when the republics of the former Soviet Union will again be able to buy their goods and know-how on a large scale.

The composition of Germany's flourishing trade with the Russian Empire before the First World War was remarkably similar to that of recent years: Russian oil, lumber and other raw materials in exchange for German machinery.

After 1945, Soviet-occupied East Germany was forced to pay nearly Marks 100bn in reparations to Moscow and to reorient its entire production to satisfy Soviet industrial demands. West Germany became a leading supplier of higher technology products and Moscow's largest Western trading partner.

The extent of East Germany's dependence on the Soviet market is shown by the

trade statistics in 1990. East Germany exported goods worth DM17.8bn to the Soviet Union - 47 per cent of total East German exports - and imported DM9.1bn - 40 per cent of imports. Nearly 500,000 East Germans depended directly or indirectly on sales to the Soviet Union which bought 30 per cent of East German machinery and vehicles and 17 per cent of electrical engineering products.

## Before the First World War, Germany had a flourishing trade with the Russian Empire

on East Germany for items such as large factory fishing vessels, harbour cranes, body presses for car factories, cable machinery as well as long-distance railway passenger cars.

East German imports from Moscow consisted of oil and gas which, along with coal,

iron and other metals, supplied more than 80 per cent of consumption.

West Germany's trade with Moscow was, by comparison, insignificant to the German economy as a whole but of considerable importance to Moscow for key items such as chemical plants and large-diameter seamless pipe for natural gas pipelines.

In 1990, West Germany exported DM10.4bn to the Soviet Union - 2 per cent of total West German exports - and imported DM9.1bn - 2 per cent of total imports.

United Germany's trade with the Soviet Union last year was hit full square by the inability of Moscow to pay Deutsche Marks for east German goods. German exports

plummeted by 35 per cent to DM18.2bn and imports fell 20 per cent to DM14.6bn. The collapse continued this year, with trade in the first six months falling by nearly 30 per cent.

Desperate calls came from BDI, Federation of German Industry, and DIET, German Chamber of Industry and Trade, for the German government to provide barter trade guarantees to help revive German trade with the CIS successor states.

Germany's Hermes export credit guarantees of only DM50m for trade with CIS this year were taken up largely by east German companies but Russia and the other republics were unable to provide workable counter-guarantees. Trade virtually ground to a halt.

Mr Otto Wolf von Amerongen, head of German industry's Eastern Board of Trade, even advocated using roubles to finance trade with the CIS. The roubles earned by German companies would be subsequently used for investments in Russia and the other republics as well as purchases of commercial properties he suggested.

Mr Arkadi Volok, the influential head of the Russian Industrialists Federation, proposed using barter and clearing arrangements to overcome payments problems during a visit to Berlin.

He said the former Soviet Union had 56,000 items of machinery and equipment from former East Germany which had broken down or were about to do so because of a lack of spare parts.

One dramatic example was the large industrial presses from Erfurt in every Russian car and truck factory which

were in dire need of repair.

Most of the giant former East German Kombinate which sold between 40 and 60 per cent of their products to the Soviet Union have lost virtually the entire business. Only for a few is there a slimmer of hope that the CIS market will revive in time to make a difference to their parlous balance sheets.

Carl Zeiss of Jena, once east Germany's most prestigious optical and precision engineering producer and a leading supplier of the Soviet defence and space industries, said the Russian Government had ordered DM180m worth of Zeiss products and placed them on a priority list. Queries had gone out for an additional DM100m in Zeiss products.

But the Russian government was still unable to guarantee any of the payments so that this year Zeiss expected to sell only DM750,000 in products to Russia.

As a result, Zeiss' total turnover would be DM150m instead of the DM200m expected earlier.

Deutsche Waggonbau (DWA), Germany's largest producer of rolling stock with five factories in east Germany, has DM2.2bn in orders from Russia and other CIS republics for its long-distance passenger carriages and freight cars.

This represents 70 per cent of DWA's output and is covered by Hermes export credit

## East Germany used to export almost half its goods to the former Soviet Union

guarantees and payment guarantees by the Russian Government. More than half of the exports this year were paid for by mid-year but it was highly uncertain whether the bills would continue to be paid.

Daimler-Benz and other large west German companies whose sales to the ex-Soviet Union were never of vital importance, are taking a long-range view of trade prospects with CIS.

During a recent swing through the central Asian

republics of CIS by DB's chairman, Mr Werner Niefer - one of the few to the area by a prominent Western industrialist - DB signed a letter of intent with Uzbekistan that it would explore possibilities to jointly produce "several hundred thousand" four-wheel-drive vehicles annually in the central Asian republic.

Turkmenistan expressed interest in assembling three-axle Mercedes trucks and Mr Niefer signed an agreement with Kazakhstan for the delivery of several thousand cars and trucks.

DB discovered to its relief that payments problems were "unexpectedly small" as the central Asian republics had oil, gold and other natural resources to sell.

Possibilities for co-operation in aerospace were also sounded out by DB as Kazakhstan has a factory producing passenger aircraft but is lacking modern engines.

Mr Niefer rounded out his tour of the former Soviet Union in Russia where DB plans to deliver the production line for the model 0303 bus which has been phased out in Germany and is to be produced at a newly-built factory near Moscow.

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## GERMANY 11

Bright prospects for the port-city, media metropolis and high tech centre

## Hamburg: a revitalised gateway

IT IS hard to believe that just seven years ago, Hamburg was trailing behind the rest of West Germany, a depressed city with double the national average unemployment.

Its port and its shipbuilding industry had been through traumatic adjustments with mass redundancies, and the big oil refining industry was languishing from the effects of the latest oil price shock.

Germany's prosperity seemed to be shifting ever more to the south, leaving the proud Hanseatic port city out on the periphery of both the German and the European economies.

And then the city picked itself up. Today it is bustling at the seams, the streets bustling, shops bulging with goods, cranes swinging over a string of large property developments, and with an air of self-confidence which would have been unthinkable back in 1985.

Business at the port is strong.

Following German unification, Hamburg is now an ideal gateway to eastern Europe

ger than ever, while financial services, especially insurance and banking, run second only to Frankfurt and Hamburg is the undisputed media capital of Germany.

Where it is was formerly headquarters for a declining shipbuilding industry, it is the aerospace and aviation sector, with Deutsche Airbus, and Lufthansa's marketing and maintenance divisions, which is the dominant force today.

Part of the story is about German unification, that windfall of history which has left Hamburg no longer cut off, with a third of its natural hinterland behind the Iron Curtain, but ideally placed as the best equipped gateway to eastern Germany and the rest of eastern Europe - not to mention a revitalised Baltic Sea basin.

But unification was really only the icing on the cake. For Hamburg had already managed to turn the corner towards a recovered prosperity well before the Berlin Wall came down: it is rather a story of the remarkable depth and resilience of the German economy.

"Things looked lousy for us back in 1985," says Dr Udo Martens-Jeebe, of the Hamburg business development corporation, (HWF).

"There was the oil price shock (five oil majors have their German headquarters in Hamburg), unemployment was rising, shipyard subsidies were being drastically cut: it was a structural and economic crisis."

That was the year when the HWF was founded, in what at the time must have appeared as a fairly desperate effort to bring back jobs to the city. It was also the year the city hit the bottom of its own regional recession, and started to bounce back. It was a fortunate coincidence.

"From 1986/87, the growth in investment picked up to the national average," according to

Dr Claus Noé, the state secretary for economics in the city government. "It was the first signal that the structural crisis had been overcome."

"Between 1987 and 1989, two things happened which helped Hamburg. First, the psychology disappeared that there was a north-south divide in Germany. And that was supported by the development in competitive costs."

"Our big rivals, such as Munich, Frankfurt and Düsseldorf, were showing classic symptoms of boom conditions: rents, land prices, and transport problems were all combining to frighten off the investors. They started looking around for another site, and Hamburg suddenly was in demand."

Hamburg may have suddenly started to enjoy a significant competitive advantage, but the hard graft of the HWF has also paid off. The aim was to make the city more conscious of investors, and investors more aware of the city.

"We had to make the city more friendly towards business," says Dr Martens-Jeebe.

"It is our job to make it clear if the economic policies of the Senate - the city's governing council - are not in the interests of the business community."

The HWF tried to identify those areas where, in spite of its restructuring problems, the city still was a leader.

"We had forgotten what Hamburg offered. Everyone assumed the high tech locations were in the south. But medical technology was here - and pharmaceuticals."

"It is the media metropolis, all the big publishers were here. And it was already a headquarters for civil aviation."

"We had to create an investment consciousness: that it was good and right to be in Hamburg. There was no point in trying to get the sort of industries in Munich - we are not going to get a major motor manufacturer."

Then the HWF concentrated on markets for potential investors: particularly Scandinavia, Britain (with very strong historical ties to Hamburg), the east coast of the US, and the Far East.

The real success story has been with investors from the Far East: they identified Hamburg as the ideal base for a foothold in the future single EC market.

In 1987, the Evergreen container shipping company from Taiwan decided to make its European headquarters there.

Today there are 63 different Taiwanese operations in the city. Part of Hamburg's attraction has been its life style. Being a big media centre helps: there is a thriving cultural scene, and a lively intellectual community.

Hamburg is trying to attract head offices, rather than big manufacturing operations, for which it does not really have the space - "the living conditions are good, so they have no difficulty getting their managers to come here willingly," says Dr Martens-Jeebe.

At the same time, Hamburg is now co-operating with the neighbouring federal state of Schleswig-Holstein, not competing: the city tries to attract



Overlooking the Binnenalster: the church towers of St Jacobi and St Petri dominate Hamburg's city skyline

the headquarters, while the factory site can be located in Schleswig-Holstein.

All that was happening before 1989, when the Berlin Wall came down. Unification simply meant that the revival of Hamburg suddenly accelerated: imports soared, construction companies won new contracts in the east, the city's food processing industries, breweries and the like found a huge new market on their doorstep.

In 1935, about one third of

Hamburg's income came from its economic ties with what became East Germany. Now that is likely to be realised again.

It is not only eastern Germany. For all its economic plight, the liberation of eastern Europe and the Soviet Union has opened up the Baltic Sea as a whole economic area. And the applications of Sweden and Finland to join the EC, as well as the presence of all Scandinavia in the European Economic Area, means that Hamburg is

no longer on the periphery.

Of course, there are problems. Rents for housing have increased about 40 per cent in five years. There is an urgent need for a fourth crossing of the river Elbe to relieve traffic congestion. And the relatively high structural unemployment remains.

One problem is that with all the high technology industries, Hamburg has not been attracting jobs for its unqualified workers - "we are a high wage, high technology city,"

comments Dr Noé.

"Unqualified workers are not needed in a high technology service centre. That is a big problem," he adds. The only other thing Dr Noé is worried about is that Hamburg will be described as a "boom town."

"We don't like that expression," he says. "It means the last phase of the economic cycle - and it means overheating. There is no talk of that here yet."

Quentin Peel



Not far from Hamburg's bustling shopping area, visitors relax at a waterfront restaurant. (Pictures by Tony Andrews)



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## GERMANY 12

## East German cultural scene

## Arts subsidy cuts now restored

**T**HEATRE, opera houses and orchestras in east Germany which until 1989 served as heavily-subsidised showpieces of the Communist leadership in Berlin are being forced to adjust to a somewhat less profligate patron in far-off Bonn.

Cries of betrayal arose from Rostock to Gera when the German government announced in its planned budget for 1993 that subsidies for culture in east Germany would be slashed to DM350m from DM780m this year, (DM500m in 1991).

Mr Hans-Joachim Meyer, the CDU minister of arts in Saxony, the most populous east German Land which receives nearly 40 per cent of the subsidies, warned that if such cuts took place his state could not support its museums, theatres and orchestras of which even the smallest towns boast.

"Even the existence of the opera houses in Leipzig and Chemnitz would be threatened," he said. Leipzig has one

of the leading opera houses in Germany and Chemnitz has only just rebuilt its bombed-out opera house which is to be re-opened in December.

Already under severe attack in east Germany for allowing the region's industry to collapse, Chancellor Helmut Kohl had second thoughts about opening himself to criticism that he was about to devastate the cultural landscape of east Germany.

After hearing the complaints of the five east German Länder chiefs - all but one from his own CDU - Chancellor Kohl

agreed to restore many of the cuts. The cultural allotment for east Germany was raised to DM650m next year.

This figure does not include additional subsidies to the performing arts in east Berlin which come out of special cultural allotments in the Berlin and Federal budgets.

The German taxpayer has been spared the cost of rescuing the east German film industry located at the pre-war UFA studios at Babelsberg outside Berlin.

CGE of France and Bertelsmann, the German media

giant, combined to purchase the DEFA studios at Babelsberg from the Treuhand privatisation company and plan to build a media city housing two German television networks, a film academy and the renovated DEFA studios now headed by Volker Schlöndorff, the film-maker, and the French businessman, Pierre Couvignes.

East German theatres in particular have been hit by the dramatic fall in purchases of tickets by citizens whose priorities have shifted to durable consumer goods, travel and, in

the case of the unemployed, sheer survival. Fewer than half the number of tickets were sold in the past year (a total of 4.2m), compared with 1989.

In order to reduce costs, several towns such as Halberstadt and Quedlinburg in the Harz Mountains have decided to amalgamate their theatres along with Freiburg and Döbeln in Saxony.

East German theatre, opera and orchestra personnel have agreed to a relatively modest 5.4 per cent increase in pay this year and to delay until next January 1 receiving 74 per cent of the pay of their west German counterparts.

But the axe is expected to fall in 1994 when Federal subsidies for culture in the east are to be slashed to virtually zero and the full brunt of subsidising the performing arts will fall on the impoverished east German Länder and communities.

Leslie Collitt, Berlin

## Quality of life in Germany: a personal view

## More pluses than minuses

After six years in Germany, FT correspondent Andrew Fisher is preparing to return to Britain. Here, in a personal view, he presents his likes and dislikes about life in modern Germany

ENVY, one of the most insidious of emotions, lies behind much of the criticism of Germany which has flared up so unpleasantly in the UK and elsewhere recently.

It was the impact of Germany's high interest rates and the consequences of the Bonn government's fiscal laxity in adjusting to unification that sparked off September's European currency turbulence. Sterling's forced exit from the European exchange rate mechanism (ERM) led to a degree of bitterness which laid bare what many foreigners feel about Germany.

Anyone on a short visit can gain a fair idea of what there is to be envious about in modern Germany, at least in the west since the new eastern states lag well behind in the prosperity league. But you need to live in the country to be able to balance out the negatives and positives of life in Germany.

Here is an attempt from someone who has spent six years in the country and is returning to recession-dogged Britain. Certainly, there are more pluses than minuses in Germany. It is prosperous, clean, efficient, and full of attractive towns and beautiful scenery. Its beer is about the best in the world, its cakes, bread, and sausages are delicious, and it is possible to eat well and cheaply in restaurants as well as expensively.

The country's numerous wine and beer festivals - the Oktoberfest being the most famous and raucous - add a flavour to life that is typically German.

So do the Bavarian beer gardens, where the drink is served in big litre mugs for those who can manage them and succulent legs of pork (with crackling) and dumplings are a tasty accompaniment.

In Hesse, the state which contains the financial centre of Frankfurt, apple wine is the local tipple and the pork mostly comes without crackling.

What else marks out the quality of life in Germany? For one thing, getting to work is not usually the hassle it is in the UK, where London is the dominant centre.

Germany's prosperity is spread amongst a host of cities, towns, and regions so that lengthy commuting journeys

are less common. Also, the train system is reliable; there is little of the overcrowding that often renders journeys on the London underground such a discomfort and time-keeping certainly beats that on Network Southeast.

Getting around by road is easy, too. But maybe this is the time to mention some of the negatives. Traffic jams are becoming more common and that scourge of modern roads, the tailgating driver, is a common and dangerous irritant, especially at the fast speeds which many Germans love.

Tailbacks on the autobahns can reach horrendous lengths at holiday times and weekends as Germans indulge what

That is, of course, far too simplistic. Germans like to enjoy themselves, and not just in Bavarian beer gardens. A favourite saying is: *Man soll die Feste feiern, wie sie fallen*, loosely translatable as "Enjoy yourself while you can." Many Germans are certainly well-off enough to do that, their spending power bolstered by the inexorable strength of the D-mark.

So why is there a sort of reverse envy about other countries, including Britain where the pound was worth DM11 when I first visited Germany in the mid-1980s and now languishes at around DM2.50? It is not Germans who express polite sympathy when told of our return to the UK - it is the British. Many Germans like London for its liveliness and variety and the British for their friendliness and relaxed way of life.

Germans are also uneasily aware that they are less likely to react sensibly to crisis, based on their recent history, than people in countries like the UK or Italy. With economic growth fading, social unrest in east Germany manifesting itself in ugly attacks by mindless skinheads on foreign asylum-seekers, and more tax increases likely to finance unification, there is much about Germany that foreigners do not envy.

There are other consolations about returning to Britain. The television is better, the newspapers more entertaining - disregarding both countries' garish tabloids - the films are not dubbed, and the service usually more willing. When these flags, there are always the antics of the Royal Family to take the mind off recession. Pity about the beer, though.

## Boost for Berlin opera houses

SOME SMALL, less-developed countries have budgets not much larger than the DM1.2bn annual subsidy which will be showered next year on Berlin's opera houses, symphony orchestras, theatres and museums, writes Leslie Collitt.

Next year's cultural budget will rise by a heady 19 per cent to hit a record 2.7 per cent of total city expenditures.

Even Berlin's cultural balance sheet this year does not exactly reflect hard-pressed budgets in Berlin and Bonn: revenues consist of a paltry DM107m

while expenditures are a whopping DM986m. The difference is made up by DM668.4m in subsidies from the Berlin budget and DM210m from the German government.

Although Berlin supports no less than three leading opera houses - two in the east and one in the west - any suggestion that this might be a luxury at a time of strict budget constraints is regarded as heresy. A flourishing operatic, musical and theatrical establishment - itself a not insignificant economic entity employing 45,000 people - is also seen by the business community as an important element in attracting top-flight executives to Berlin and enhancing Berlin's appeal for visitors.

All three Berlin opera houses have top directors to match the more than DM177m they receive in subsidies. Opera buffs can choose between the Deutsche Oper (DM78.4m) under Götz Friedrich, the Komische Oper (DM41.2m) led by Harry Kupfer and the Staatsoper (DM58m) under its new artistic director, Daniel Barenboim.

Despite the subsidies, the blood-letting in personnel of the two east Berlin operas has



In east Berlin, rising living costs have led to a fall in theatre ticket sales

been heavy. Nearly a third of the singers at the Staatsoper were sacked and Georg Quander, the Intendant, said tartly that if artistic criteria had been the sole yardstick - and not job security regulations - then only one-third would have survived. Götz Friedrich, whose Deutsche Oper has bred top-flight singers such as Jessye Norman and Cheryl Sweet, and Harry Kupfer are both in the "realistic music theatre" tradition of the late Walter Felsenstein. Thus, even

a lyrical performance of Verdi's *La Bohème* by Friedrichs at the Deutsche Oper manages to portray the sharp social divisions of the time.

Berlin's other cultural jewel, the Berlin Philharmonic Orchestra which gets DM23.4m in subsidies, is under the baton of its new artistic director, Claudio Abbado, who is having few problems filling the shoes of the late Herbert von Karajan. Radio-Symphonie-Orchestra (DM7.4m), conducted by

Vladimir Ashkenazy, has gained greatly in stature in recent years. Berliner Sinfonieorchester (DM11.6m) was East Berlin's leading orchestra and has a strong following in the east. But it has the drawback of playing in the opulently-restored Schauspielhaus whose acoustics are far from ideal.

Deutsches Theater in east Berlin (DM32m), one of the German-speaking world's leading theatres, has become the leading "state theatre" of Berlin, eclipsing west Berlin's Schiller Theater and Schlosspark-Theater which get (DM40.7m).

Berliner Ensemble, also in east Berlin, was founded by Bertolt Brecht and suffered from arteriosclerosis long before the collapse of Communist rule. It gets DM14.7m in subsidies and is to be jointly run by several leading east German directors.



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# INTERNATIONAL FUND MANAGEMENT

SECTION IV

Monday October 26 1992

European governments have been given a punishing demonstration of the power of international capital flows. At the same time, investors have had to reconsider the importance of currency decisions. **Barry Riley** evaluates the lessons learned during a summer of crisis, and considers the implications of the global economic slowdown

## Portfolio of uncertainties

THIS SUMMER the fast-growing international portfolio management industry provided a reminder of its power, but perhaps also of its ultimate political vulnerability. Cross-border investment flows have soared in the past decade or so, reflecting the liberalisation of exchange controls in many countries, and reflecting also the growth of huge imbalances in the flows of funds around the world.

By and large, governments have welcomed the appearance of vast international buying demand for their bonds. Indeed, it is possible to argue that these global investors may have encouraged fiscal deficits in countries such as the US and Germany to grow larger than might have been possible, if long-term financing were available only from domestic sources.

Multinational companies, too, have viewed positively their ability to issue bonds and shares around the world.

But these huge global portfolios have represented a powerful potential for currency speculation, when combined with the corporate treasury departments which are also extremely active in the foreign

were still the most highly-regarded, but investors were buying, for instance, French and British government paper on narrowing spreads over bonds. Last winter and spring, about half of the issuance of UK gilts was being absorbed by foreigners, an unprecedented situation.

But now European governments have been given a punishing demonstration of the power of international capital flows. For their part, international investors have been forced to reconsider and upgrade the importance that currency decisions should play in portfolio management, with the development, for instance, of systems of currency overlay management.

Presumably, a great many international investors profited from the willingness of European governments to buy up tens of billions of dollars worth of their own and their EC partners' currencies to maintain what, by mid-September, were obviously indefensible fixed parities.

We shall never know accurately, but European taxpayers have probably bolstered the profits of banks, corporate treasury departments and international investment institutions by more than \$5bn.

But floating currencies present an entirely different scale of risk. Moreover, the global economic situation is looking increasingly dangerous as growth stutters or stops in most of the leading economies.

One consequence could be the loss of momentum of globalisation, a process which has rapidly changed the face of equity and bond markets around the world. Global investors have already had to face the Wall Street crash of 1987 and the slower but even more spectacular crash in Tokyo between 1990 and August this year. At that point Japanese equities staged a strong bounce off the bottom, but only after a 60 per cent price collapse in about 2 1/2 years.

Slightly earlier, a series of international equity issues tested the robustness of the global market. The Wellcome offering got away, albeit at a lower price, and in a lower



size, than had once been expected, but the flotation of the Irish aircraft leasing company, GPA, collapsed ignominiously at the last moment amid loud recriminations.

Perhaps the biggest problem now facing international fund managers is what to do about their exposure to US equities and bonds. The dollar has been weak but may well recover. On the other hand Wall Street has looked overvalued for some time and would probably collapse on any sign of rise in short-term dollar interest rates.

As for US Treasury bonds, they yield less than DM bonds but the fiscal outlook under a Clinton administration might be seen as worrying.

At one level this raises the currency problem again. In circumstances (falling interest rates) in which a country's capital markets are likely to be buoyant the currency will probably be weak - and vice versa. Thus the recent strength of the EC core nations' currencies has been accompanied by sliding prices on the bourses.

At another level the problem

of asset allocation is highlighted. The global manager with an open mandate, in theory, has unlimited access to currencies and money markets, to stock markets and to bond markets. There are possibilities in commodities too, and in a variety of derivative markets.

In practice, these choices are usually restricted, often by expressing the manager's objectives in terms of a benchmark, which can be either an index of some kind, or the average performance of some group of similar portfolios.

At the moment, many international equity managers are rather underweight in US equities, but because the US stock market represents 41 per cent of global capitalisation (and 46 per cent of, for example, a World ex-UK benchmark) there is still likely to be a substantial exposure.

It is a lesser version of the Japanese problem that developed towards the end of the 1980s, when eventually the Tokyo market represented 45 per cent of the global market, and as much as 70 per cent of the World ex-US capitalisation, this being a benchmark much favoured by US clients owning international equity portfolios.

Tokyo, incidentally, now accounts for only about 26 per cent of global capitalisation. Global investors prudently stayed underweight in Japan in the late 1980s, but unwisely decided to move back into Tokyo in 1991. That was after the first large downward leg in Japanese equities, but before the second one. According to the forthcoming 1992 report on International Equity Flows, produced by Baring Securities, as much as \$46.8bn flowed from the US, UK, France and Switzerland into Japanese stocks last year.

Overall, net cross-border flows reached \$102.2bn last year, fuelled by a big international diversification drive by US pension funds. According to the consultants, Greenwich Associates, the average exposure of US pension funds to international equities rose from 2.7 per cent in 1988 to 4.4 per cent at the end of last year. Moreover, plan sponsors say that they expect the figure to rise to 7.2 per cent by the end of 1994, equivalent to an outflow of more than \$20bn a year.

On the other hand, the big outflows of Japanese money into global markets - especially bonds but also equities - have largely disappeared as the Japanese have become preoccupied with the financial crisis at home. Recently, too, they have been retreating from Europe, which has disappointed their hopes of financial and political stability.

As for Europe, British pension funds, previously leaders

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in global investment, are likely to have their hands full at home financing the government's soaring fiscal deficit. Some smaller countries, such as the Netherlands, are developing a new taste for cross-border diversification, but Germany's big capital outflows of the late 1980s have collapsed under the impact of unification.

According to *International Equity Flows*, 1992 could, therefore, be quite a subdued year overall for cross-border stock market investment, although net flows could total some \$50bn. At the end of last year 8.1 per cent (or \$890m) of equities worldwide were held by cross-border investors, and this could be between 8.5 and 9 per cent by the end of this year.

However, the scope for good performance by equities in a weakening global economy may be questionable. Many fund managers are more enthused by the potential in bonds as inflationary pressures subside in many economies and real interest rates fall.

If the economic picture becomes seriously troubled, however, global investors may find that the freedoms they came to expect during the optimistic 1980s may be reduced. Already Europe's ERM crisis has resulted in the partial reimposition of exchange controls in countries such as Spain and Ireland.

All too often politicians do not like the message of the market and given the chance they can be inclined to shoot the messenger.

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## INTERNATIONAL FUND MANAGEMENT 2

The performance of equity markets has been disappointing this year

## Forecasts for 1993 are bleak

THE slow pace of economic recovery in the United States and the German Bundesbank's reluctance to reduce interest rates are to blame for the disappointing performance of global equity markets this year.

The fluctuations of leading stock market indices also suggest that international fund managers were too quick to anticipate a US-led global economic recovery as well as lower interest rates in Europe.

The Dow Jones Industrial Average hit its record high, of 3,413.21, on June 1, the culmination of a 7.3 per cent rally which started in the early days of April. The rally was mainly fuelled by what turned out to be short-lived signs of an upturn in economic activity.

The realisation that the US economy was still far from recovery and uncertainty ahead of the presidential election in November eroded the gains in the Dow Jones over the summer, and the index is now languishing just above the year's low of 3,136.58.

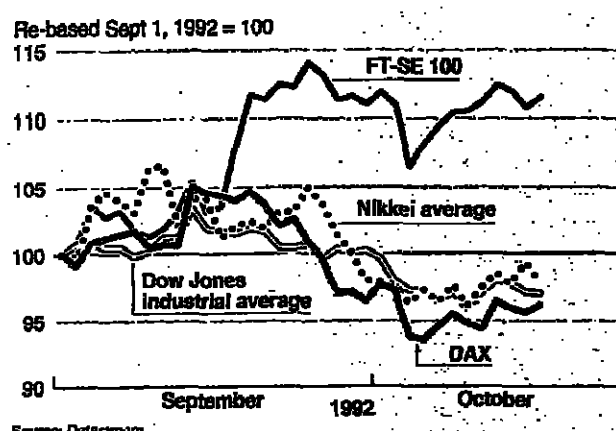
Similar patterns are evident in the UK and German stock markets. The FTSE-100 also reached its record high of 2,737.80 on May 11 in the wake of the Conservative Party's fourth general election victory. But the index fell back over the summer as fund managers decided that the economic fundamentals were unchanged.

Germany's DAX index climbed to a 1992 high of 1,811.37 on May 25 on hopes that Germany would lead the way for lower interest rates. Cyclical stocks were particularly in favour as fund managers took the view that they would be the first to benefit from stronger demand in global economy.

But disappointing interim results from the corporate sector, and the Bundesbank's grudgingly small cut in interest rates, in spite of growing signs that the German economy was slowing down, brought the DAX index down to the year's low of 1,420.30 in early October. It has since recovered slightly.

Tokyo's equity problems, on the other hand, had a limited impact on stock markets in the rest of the world, in spite of a

## Leading national indices



fall of 40 per cent in the Nikkei average in the first eight months of the year, from 23,801.18 to 14,308.41. The index has since recovered, thanks to government support measures, to trade around the 17,000 level by late October.

Equity strategists say that the fall in Japanese equities did not have a "domino" effect on other leading stock markets because the reasons for the fall - a slowdown in the economy, and the bursting of the property speculation bubble - were seen as the country's specific problems. Furthermore, many international fund managers had reduced their exposure to the Japanese equity market late in 1991 because of what they regarded as excessively high valuations.

However, strategists are concerned about the effect of attempts by Japanese institutions to correct their over-extension into foreign capital markets. Ms Lisa Hosking, strategist at Credit Suisse First Boston in London (CSFB), fears that the repatriation of Japanese funds, as well as a flight of capital into the D-Mark and the Swiss franc during the currency turmoil in the European exchange rate mechanism (ERM), means that there is less capital available for second-line markets in Europe, such as Spain and Italy, in Scandinavia, and for markets in the Far East.

One exception to this scenario is Hong Kong, which rose to a record high of 6,162.53 on the Hang Seng Index in mid-July, a jump of 43 per cent

since the start of the year. Hong Kong's closeness to China, whose economy is starting to grow rapidly due to a change of direction on economic reform, has been the main attraction for international investors.

The Hong Kong stock market fell back slightly in the late summer but news in mid-October of a trade agreement between China and the US, designed to open China's markets to foreign goods, is expected to revive investor interest once again.

Looking towards 1993, projections from some brokers point to an outperformance of bonds and cash, and have therefore increased their weightings in these instruments at the expense of equities.

Mr Andrew Garthwaite at S.G. Warburg says in his international asset briefing for the fourth quarter that even though a 5-10 per cent recovery in earnings in most equity markets would return bond-to-equity ratios to reasonable valuations, a much stronger recovery is needed to rebuild dividend cover, as well as to secure sufficient dividend growth to bring bond-to-dividend ratios back to "fair" values.

This view is echoed by County NatWest, which has raised its cash allocation to 10 per cent, against a benchmark of 5 per cent, and bonds to 30 per cent, mainly at the expense of European equities. Although the broker expects equity returns to outpace those available on cash and bonds, the

margin is not sufficient to compensate fully for the higher risk attached to equity investments.

But for those fund managers who require a weighting in equities, Ms Hosking would recommend the safer markets in Europe, which should benefit the most from the expectation of falling interest rates next year. Her preferred markets are the Netherlands, France, the UK and Switzerland.

This scenario is now plausible after the recent plunge in continental bourses caused by the severe tensions in the ERM and the resulting devaluations of the lira, sterling and the peseta. However, County NatWest warns that the boost from falling interest rates will have to be balanced against a deteriorating earnings profile, especially in Germany.

The imminent presidential election in the US - and the prospect of a victory for Mr Bill Clinton, the Democrat candidate - has increased the risks attached to US assets. Even though strategists believe that the financial markets would welcome a change of administration, they fear that Mr Clinton's commitment to infrastructure spending will add to the budget deficit at a time when international capital is harder to attract.

A more pressing problem for equity markets, however, is the growing consensus that the US is unable, and perhaps unwilling, to continue to be the engine of economic growth for the rest of the world. It would be a success if either Germany or Japan, but neither country has yet come forward to assume the responsibility.

Antonia Sharpe

Those who have increased exposure to bonds are looking fairly content

## A good ride in most markets

SEEN from one perspective, it has been a good year for bond market investors. The rally in the world's main government bond markets has been surprisingly uniform: the US, Japanese and German bond markets all gained over 7 per cent in the first nine months of this year, with the latter two managing more than 8 per cent, according to the JP Morgan government bond index.

With further interest rate falls in prospect in all three - and with sustained falls in Germany still awaited - it is not surprising that fund managers who have increased their exposure to bonds are looking fairly content with life.

Turnout in the currency markets, of course, has made any such view overly simplistic. Whereas domestic investors have had a good ride in most markets, international fund managers have seen concern over currency risk deepen. A domestic UK investor could boast an 11 per cent return from gilts in the first nine months; but an unhedged US-based investor had made a gain of only 5.5 per cent, while a D-Mark investor was looking at a loss of 1.4 per cent.

Europe's currency upheaval has upset two of the favourite pastimes of fund managers over the past two years. The first involved dabbling in higher yielding European bond markets, both at and beyond the margins of the EC, to benefit from the economic and monetary union that European politicians had promised. This so-called "convergence" play could end in an abrupt halt when Danish voters rejected the Maastricht treaty in early June, and could have been finished off for good by the turmoil in the European exchange

rate mechanism in September.

The obvious casualties were bond markets such as Italy's, where the yield on 10-year bonds, having narrowed to nearly 250 basis points (2.5 per cent) above the yield on German bonds, jumped back to more than 500 basis points. Even yields on French bonds have leapt from 40 to more than 100 basis points above German levels, in spite of France's strong economic fundamentals.

One result is that Ecu bonds

The question now hanging over the European bond markets is to what extent the convergence process can be kicked back into life. Markets like France and Denmark, putative members of any "hard core" of European countries centred on the D-Mark, may offer the safest short-term gains. Currencies such as the peseta, the lira and sterling are likely to remain off many fund managers' buy lists.

Meanwhile, predicting the timing and scale of interest

most market commentators thought necessary. The risk of plunging these economies into a sharp recession, rather than the danger of inflation, is uppermost in investors' minds.

The need to fund large fiscal deficits could pose a more serious threat to bond yields, preventing the sort of falls that might otherwise be expected. This is particularly true in Europe in the short-term. Since the Danish referendum first unsettled European markets, a number of countries - among them Italy, Spain and Sweden - have delayed moves to fund their fiscal deficits, preferring to wait for conditions to improve. The result is an overhang of new bonds, which will help to keep yields up.

The size of deficits in a number of countries next year could also put a strain on bond markets. Any further delays in economic upturn would hold down tax revenues and force down tax revenues and force higher, keeping deficits in the forefront of investors' minds for some time to come.

Some fund managers regard this fear as exaggerated. Mr Paul Abberley of Lombard Odier, which manages \$2.7bn of international fixed income funds, predicts the impact of higher deficits will be small: "Yields may be around 15 basis points higher than they would otherwise be." Savings rates have risen into double digits to compensate, he says, and anyway the gains from falling inflation far outweigh the cost of higher deficits. The outcome of this tussle between the effects of gathering recession and the threat of returning inflation will set the mood in bond markets in the future.

Richard Waters

## Europe's currency upheaval has upset two of the favourite pastimes of fund managers

are now worth considerably less than the sum of their parts. Touted as the future for Europe's bond markets only a matter of months ago, few now expect this battered basket currency to regain centre stage as the vehicle for European monetary union. The rushed exit of market makers and investors, all of whom are long on bonds they no longer want, has forced the yield on Ecu bonds to rise to nearly 500 basis points above its theoretical level.

The second play that had developed around the ERM involved a form of cross-hedging. With short-term US interest rates at a low level, money market funds in the US had taken to investing heavily in higher yielding European bonds, both at and beyond the margins of the EC, to benefit from the economic and monetary union that European politicians had promised. This so-called "convergence" play could end in an abrupt halt when Danish voters rejected the Maastricht treaty in early June, and could have been finished off for good by the turmoil in the European exchange

rate reductions around the world has become the main pastime of fixed income investors. Although German money market rates have already slid by a percentage point from their peak, the Bundesbank has offered little encouragement to those who believe a rapid fall is on the way. Despite the relatively low interest rates in Japan and the US, both countries' economies continue to sag, suggesting neither has hit the bottom of its interest rate cycle. Against this background, bond markets could be the place to be - and the investors who do best will be the ones who predict where interest rates will fall.

Two considerations could hold back gains in the bond markets: fears about the scale of fiscal deficits in some countries, and a concern that falling interest rates will push up inflation once the world economy strengthens.

So far, inflation generally remains a distant concern. The German and Japanese authorities have applied their monetary squeeze for longer than

Is currency overlay just a fad? Peter Montagnon examines the theory

## New discipline for decisions

IT IS DIFFICULT to believe that as recently as early September sterling was worth nearly \$2. Since then, there has been Black Wednesday. Sterling and the lira are out of the ERM and, quietly in the background, the yen has strengthened against just about every other principal currency.

It all adds up to a nightmare for international fund managers. Assuming they have managed to pick the right equity or bond, they risk seeing their return destroyed by a seemingly unpredictable lurch in the currency markets. Or, conversely, such a movement can compensate for and disguise what was otherwise a foolish investment decision.

The response of some fund managers, particularly those based in the US, has been to adopt a new approach to investment: the currency overlay theory which involves an attempt to separate out currency from other investment decisions and then hedging the currency risk as appropriate. Such an unbundling adds a new discipline to investment decisions, but UK fund managers remain sceptical - which prompts the question whether currency overlay is just another North American fad.

The attraction of currency overlay is perhaps particularly strong for a dollar-based investor in the present market constellation. In recent times the US currency has been weak. So currency movements have tended to enhance returns. Now, many economists feel the trend could be reversed with

the dollar strengthening as German interest rates decline and the extent of the European slowdown becomes apparent. If that does happen, US funds could pay a high price for an international diversification which gathered pace during the second half of the 1980s. Some large funds now have 15 to 20 per cent of their assets offshore and in one or two cases the proportion could be as high as 30 per cent.

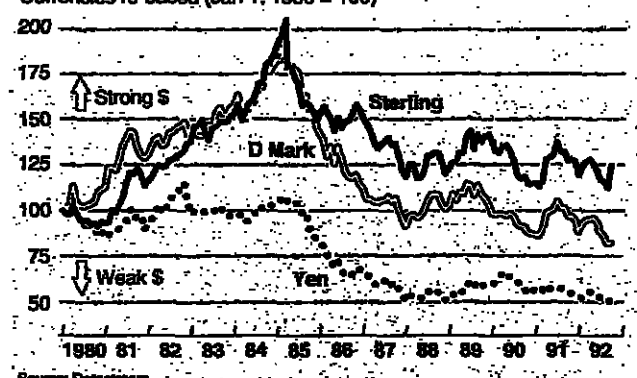
In the US, some 15 funds have appointed separate managers to handle currency exposure in the belief most international equity managers do not have adequate currency expertise. According to Ms Margaret Waller, who specialises in currency overlay advice at Pareto Partners, the share of currency gain in total return has been 27 per cent for a dollar-based fund over the past 10 years.

More important, perhaps is the way the picture shifted at the time of the Plaza Accord on the dollar in 1985. In the early 80s investors who had failed to hedge their overseas equity portfolio would have suffered a currency loss of some \$40 for every \$100 invested, Ms Waller says. As the dollar fell, those who were fully hedged would, by the end of the decade, have suffered an opportunity cost of \$30 on every \$100.

Currency overlay may also have some appeal for Australian institutions who are confronted with a volatile currency and the need to diversify away from a relatively small home market. Continental investors who have tradition-

## Dollar

Currencies re-based (Jan 1, 1980 = 100)



ally tended to concentrate more on bonds than on equities and then also more in their home markets may also find it useful as they diversify. By contrast UK investors have some strong reservations.

One reason, according to Mr Robert Schwob of Quorum Capital Management, is the fear among institutions that they might lose their tax exempt status if an active policy of currency management prompted the Inland Revenue to reclassify them as currency traders. More important are probably the pragmatic objections of fund managers.

"With equities, for most of the time, the decision that you like an equity and you like the currency goes together," says Ms Caroline Burton of GRE. Not all investors want the currency risk to be hedged, she adds.

Some fund managers such as

Mr Tom Crombie, of Scottish Equitable, admittedly believe the UK is, as he puts it, "ducking the issue".

In the past year US bonds have been a good investment, but the dollar hasn't. You should have detached the bond from the currency," he says. Even Mr Crombie, however, is doubtful about the systematic approach called for by overlay theory. "There is a spurious precision in having this great matrix," he says. Separating out currency risk requires "a particularly strong currency view", adds Mr Robin Garrow of Scottish Widows.

Among objections to hedging currency risk in equity investments is the possibility that the company whose shares are being bought may itself derive much of its earnings abroad. Investors may not know whether that exposure is hedged or not.

Even the so-called experts frequently misjudge the market. "Currencies don't respond to any rules. We're not aware of any academic evidence that suggests you can do good forecasts," says Mr Terry Pridoux of Kemper Investment Management. In theory it should be possible to judge whether a currency is correctly valued on the basis of its purchasing power parity, but experience shows that if this measure is relevant, it only works over long periods.

In the short run, the currency markets are vulnerable to all kinds of shock. After last year's attempted coup in the Soviet Union, the dollar soared by 4 per cent when US markets were closed.

Then, again, this type of objection may ascribe more to currency overlay theory than its practitioners would themselves claim. "We aren't forecasting direction but volatility," says Mr Schwob. Similarly, for Pareto Partners currency overlay involves first and foremost assessing the degree of risk in a portfolio based on the volatility of the currencies involved and then hedging that risk so that it is reduced to an acceptable level.

The process should minimise large-scale losses arising from currency fluctuations. Those who adopt it can at least claim that they have a system in place for protection. That may provide considerable comfort in the event that they are called to account when things go wrong. Whether their funds will outperform in the longer run is another matter. After all, currency overlay also reduces the scope for gain, and places much greater onus on international managers to pick the right stock in markets that can never be as wholly familiar as their own.

Philip Coggan looks at emerging markets

## Risk factor too high

Asia, eastern Europe and some small Mediterranean countries. Nick Train of GT Management, says research has shown that these markets have little or no correlation with each other, or with the stock markets of developed economies.

Of course, this is not always a positive factor, since it means emerging markets can fall when developed markets are rising. But it does mean emerging markets represent a genuine diversification of risk.

To date, most institutional investors have little exposure to the emerging markets sector. Fund Research, the group which analyses collective funds, said in a recent report: "Although emerging markets account for 15 per cent of the world's GNP and perhaps 80 per cent of the world's population, their market capitalisation is only 6 per cent of total world capitalisation and they probably represent only around 0.5 per cent of institutional investors' total portfolio holdings."

So will pension fund managers move more aggressively into this area, and just as importantly, should they do so? There are plenty of counter-arguments to the bull case.

The main problem is stock markets in such countries are normally underdeveloped. It is difficult to gain access to the kind of information pension fund managers would expect to receive from companies in industrialised nations. And liquidity is a particular problem, creating the risk that managers buy into markets when they are fashionable, only to be stranded when the area falls from favour.

Often, there are only a few shares in which institutional investors can realistically buy holdings. In Colombia, for example, 82.5 per cent of the market's capitalisation at the end of June consisted of just 10 stocks.

These difficulties have not stopped pension funds from investing in some emerging markets. According to Tim

Gardner, head of asset planning at actuaries Mercer Fraser, there is already investment in the lesser-developed Pacific basin countries such as Korea, Thailand and Malaysia of around 1.5 to 2.5 per cent of pension fund assets.

The Pacific basin has established its reputation as an area with superior GDP growth performance, says Mercer Fraser's Gardner. But he believes investment interest in other areas such as Latin America and eastern Europe has been more supplied with well-established names bringing out funds in an attempt to attract investors.

"Projections of GDP growth in these areas are more speculative," says Mr Gardner. "The illiquidity of markets is also an issue, and the changing structure within these funds tends to be high."

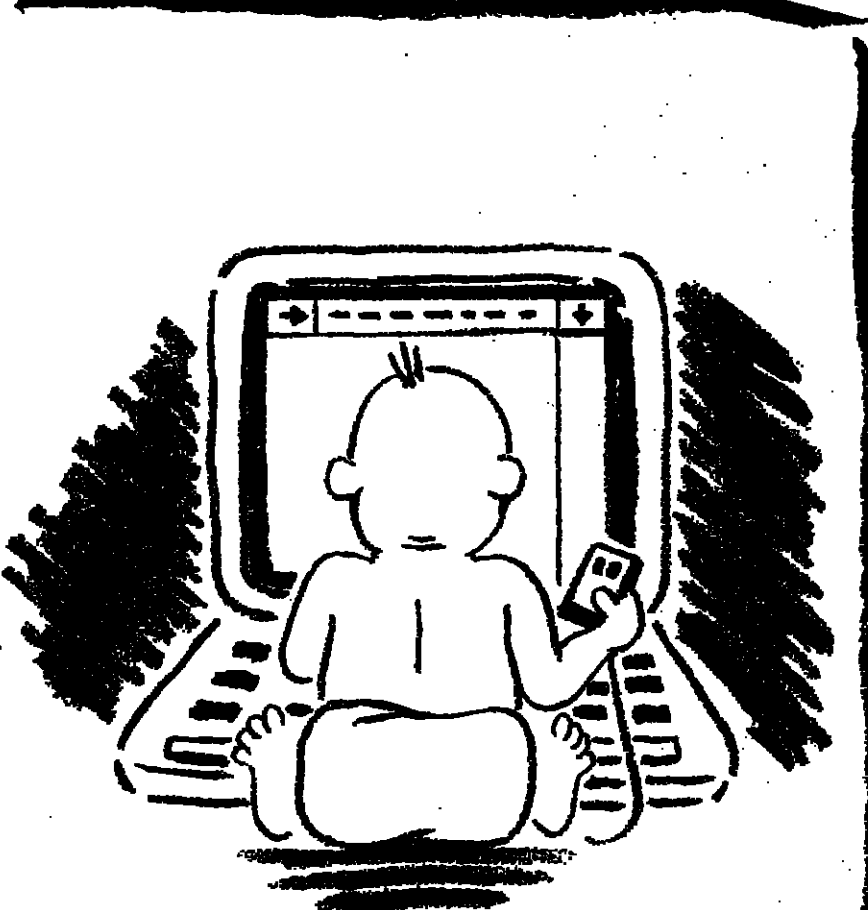
When closed-end funds are launched in temporarily fashionable areas, investors have frequently found that the shares trade at a heavy dis-

count when the excitement dwindles. The average discount on UK-listed country funds was around 32 per cent in October.

Nevertheless, for most pension fund managers who want exposure to emerging markets, a fund still represents the most logical route. Given the likely size of investment in any individual market, it would be hard to justify the time and effort involved in researching the companies involved.

If the recent problems of the world economy continue, some would expect interest in emerging markets to increase, as they are one of the few investment sectors offering the prospect of exciting returns.

But Mr Gardner doubts whether pension funds will see a significant increase in exposure to emerging markets in the near future. "Many pension funds see this field as akin to venture capital," he says. "And with so much uncertainty in major economies, this is not a climate for taking big risks." And he makes a more general point. This could be the worst time for pension funds to move into such a high risk area since the funds are getting more mature and thus likely to realign their portfolios in favour of bonds rather than equities.



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## UNITED STATES

## Money is pouring into mutual funds

THANKS to the Federal Reserve's willingness to cut domestic interest rates to aid an ailing economy, money has been pouring into US mutual funds faster than fund managers can count it.

According to figures from the Investment Company Institute, in the first eight months of 1992 sales of stock funds totalled \$22.5bn, compared to the \$27.7bn sold by the same stage last year. Demand for bond funds has been even stronger, with sales reaching \$14.5bn by the end of August this year, compared to \$30bn in the same period of 1991.

The total amount of assets in mutual funds has also been growing rapidly. In 1990, just over \$1,067bn of assets were invested in funds, a total which jumped to \$1,347bn in 1991. By the end of the first half of this year that figure had already reached \$1,419bn.

Vast amounts of cash have been flooding into funds because US interest rates have dropped to the lowest levels since John F Kennedy occupied the White House. During the short recession in late 1980 and early 1991 the Fed cut rates in small steps to boost economic activity.

Yet after the recession ended, the subsequent recovery proved to be much slower

than expected, so the Fed kept on cutting interest rates, only more aggressively. The end result was that by mid-summer the Fed had eased monetary policy an astonishing 24 times, and the discount rate was 3 per cent and the bank prime rate was 6 per cent.

This sharp fall in interest rates was disastrous for investors with short-term assets such as money market funds and bank certificates of deposit, where rates dropped so far that after inflation and fees were taken out, investors were left with tiny or negative

**By mid-summer the Fed had eased monetary policy 24 times**

returns on their investments.

With short-term assets yielding such a poor return, investors went elsewhere in search of better yields, and their prime destination was the stock and bond markets. Mutual funds became the big-

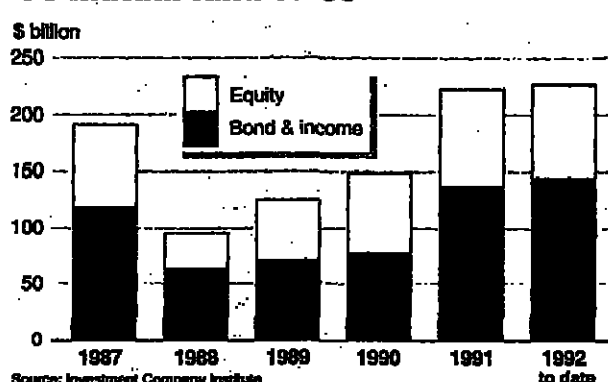
gest beneficiaries of this huge transfer of investor assets.

The investment fund industry, however, has not just enjoyed its best year because of extremely low interest rates. Industry analysts believe there are two distinct, yet equally important, secular trends that have been working in favour of funds.

One is that individual investors are returning to the equity market after a relatively long absence. Mr Michael Hines, a vice-president of marketing at Fidelity, the country's biggest fund group with \$180bn of assets under management, believes that individuals are beginning to see investing as a more fashionable form of consumption. He says: "People today get the same kind of psychic gratification from their investments that they got a few years ago from buying consumer goods."

Mr Hines thinks that individuals are now more willing to switch from the instant gratification they get from consumer purchases, to the deferred grat-

## US mutual fund sales



Source: Investment Company Institute

ification they get from investing in stocks and bonds. "More people are becoming long-term, buy-and-hold investors."

There is certainly plenty of room for more small investors' money to come into the stock market. The share of household assets in equities is 15 per cent, an all-time low. While many households are more concerned with reducing their debt levels than with spending or investing, a growing num-

ber of analysts expect them to steadily build up their holdings of stocks over the next few years.

Generation factors are at work here. The baby boom generation is growing up fast, and its members are looking for investments that allow them to save for their own retirement and their children's future, while offering an acceptable trade-off between security and the potential for capital

growth. These investors are not going to be put off equities by short-term fluctuations in market values. A recent series of polls conducted by Fidelity on investor activity showed that every time the market dipped this year, individual investors saw the decline in prices as a buying opportunity. "These people believe in the long-term resilience of the stock market," says Mr Hines. The other important trend moving in funds' favour is the growing preference among individuals to entrust their cash to fund managers, as opposed to investing themselves.

A recent study by the University of Michigan discovered that an astonishing 75 per cent of all the net flows of cash into financial services during the first quarter of this year went into mutual funds.

"The cyclical trend may be to own more stocks, but the secular trend is towards funds and away from individual ownership of equities," says Mr Hines.

An increasingly wide choice of stock and bond funds now exists to meet demand from investors, and changes in technology and attitudes means they can buy top quality money management extremely easily - by telephone (through toll-free 800 numbers), or by post.

The product itself is also much more sophisticated. Fidelity's customers, for example, can write checks on their fund accounts, a service unheard of a few years ago. Mutual funds are now regarded as a liquid asset, unlike in the

**The share of household assets in equities is 15 per cent, an all-time low**

days when money was put away to be left untouched for years.

If the two secular trends hold, they will offer reasonable protection against the fact that the present rush out of short-term bank assets and

into funds will eventually slow, and maybe even be reversed. Interest rates are unlikely to go much lower, and the longer-term outlook for the US economy suggests that over the two years interest rates will creep up again as economic activity revives and the Fed moves to dampen inflationary pressures in the economy.

If there is a cloud on the mutual fund industry's horizon, it may well be the growing competitive presence of other financial services firms, most notably the securities houses. Some of the biggest broking firms in the US, such as Merrill Lynch, PaineWebber and Shearson Lehman, are rapidly building up investment management products aimed at their brokerage customers.

The secret weapon of securities firms is their distribution network. A brokerage company has hundreds of branch offices across the US and thousands of brokers, selling not just stocks, but in-house funds managed by the firm's asset managers. Look at any list of the top performing US funds today and among familiar names like Fidelity, Dreyfus and Kemper, lurk the likes of Merrill Lynch, PaineWebber, Morgan Stanley and Dean Witter.

**Patrick Harverson**

## JAPAN

## Gloom returns after salvage exercise

JAPANESE fund managers have spent the past few months in deep thought over where to put their money. Tokyo stock prices have appeared ready to plumb new depths, while the general feeling in Japan has been that US stock prices are on the way down, and currency chaos in Europe has made the region's bond markets unattractive.

The Japanese government attempted to make the life of portfolio managers a little easier in August by announcing emergency measures to bolster stock prices and an investment package to stimulate the economy, but the gloom soon returned.

As part of the stock market salvage exercise, the government suggested more pension fund savings money should flow into equities, but there is not much evidence that the suggestion has been followed. Sumitomo Trust & Banking suggested that "we will have to wait a little longer" before these new funds are committed to the market.

Foreign investors have been net buyers of stocks for much

of this year, and local securities houses say US and European portfolio managers have realised they were underweight in Japan. And yet it is not clear that the Japanese economy has bottomed.

The Tokyo Stock Exchange (TSE) said foreigners were net sellers in late September and early October, but returned to the market in the middle of

**Foreign investors have been net buyers of stocks this year**

this month. Japanese brokers insist that foreign investors remain interested in the market, and that the recent selling followed the strengthening of the yen, which tempted foreigners to take profits.

Currency fluctuations have

been foremost in Japanese portfolio managers' thoughts. Mr Eiji Arima, manager of foreign exchange at Nippon Life Insurance, has been "watching the currency situation closely" in the UK, but was also cautious about the prospects for the UK economy.

Japanese investors have been severely bruised by currency fluctuations in the past, and funds were repatriated during the currency crisis in Europe. Mr Shinpei Kawate, investment strategist at Yasuda Trust and Banking, said that Japanese managers will have to "exercise great discretion" and not only in the UK, but in all of Europe.

The souring of sentiment comes after a surge of interest in UK securities last year, when net purchases totalled \$14.5bn, up from \$1.95bn in 1990. Net purchases of UK

## Net assets of Japanese stock investment trusts (¥bn)

1986	19,183
1987	30,614
1988	39,252
1989	45,549
1990	35,072
1991	28,562
1992*	23,219

\*End of August. Source: Securities Investment Trust Association of Japan

securities, mostly bonds, accounted for 19.9 per cent of all Japanese purchases, behind only the US, which accounted for 21.3 per cent, according to Japan's ministry of finance.

But it is the home market that has most concerned Japanese fund managers. Daiwa Investment Trust and Management set an unwelcome prece-

## Net assets of Japanese bond investment trusts (¥bn)

1986	12,957
1987	12,300
1988	13,545
1989	13,598
1990	10,922
1991	12,511
1992*	18,208

\*End of August. Source: Securities Investment Trust Association of Japan

dent this year with its New Stage stock investment trust fund, which was the first fund to receive finance ministry approval for an extension.

New Stage prospered during the late 1980s, as stock prices rose sharply. Having reached a high of 36,915.87 in December 1989, the Nikkei market average has been in decline, leav-

ing the New Stage below par value. As a result Daiwa was allowed to extend the life of the fund for three years.

The net asset value of equity and bond investment trusts fell 9.8 per cent last year, with the net assets of stock funds down from ¥35,077.2bn at the end of 1990 to ¥28,562.4bn a year later. Net asset value has continued to decline and, at the end of August, was ¥23,219.1bn.

The pressure on equity fund managers was reflected in the rush of redemptions in 1991, which rose 2.4 times on a year earlier, with pre-maturity redemptions the vast majority. The value of new stock funds launched last year was down 43 per cent to ¥6,640bn, the lowest level in six years.

Bond investment trusts have done better, as their net assets rose from ¥10,921.7bn at end 1990 to ¥12,511.4 in 1991, and

¥18,208.1bn at the end of August. The names are slightly deceptive, as stocks accounted for 47.9 per cent of "stock investment trusts" in August, with the remainder in bonds and cash accounts.

The weakness of stock prices has clearly been a reason for individual investors' reluctance to commit their money to investment trusts. But the

**Investors have been severely bruised by currency fluctuations**

close ties between investment trust companies and Japanese brokers may be another reason, as the securities industries scandals last year gave investors the impression that brokers unfairly favour their corporate clients, some of

whom had received compensation for investment losses.

The image problems of Japanese fund managers and the need for better investment yields could provide opportunities for foreign fund managers, who are gradually gaining access to funds through the liberalisation of the Japanese financial system. Foreign companies have been given access to investment trusts and pension funds, but the amount of funds under foreign management remains small.

Mr Takao Uratani, senior fund manager for National Mutual Funds Management Japan, the Australian-based group, said the stock scandals prompted investors to think more about the "western style" of fund management. His group has appointed an investment adviser to two recently launched Asia-Pacific funds, the Yamaichi Asia Fund of Yamaichi Investment Trust Management and another fund marketed by Sanyo Securities, the second-tier Japanese broker.

**Robert Thomson**

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## INTERNATIONAL FUND MANAGEMENT 4

## EUROPE

## Hint of disillusion

THE cause of European integration may have suffered a severe setback with political doubts over Maastricht and the ignominious departure of the pound and lira from the exchange rate mechanism (ERM). But with just a few weeks to go before the official starting gun is fired, most of the building blocks for a single European market in financial services are in place.

The regulatory changes have altered the outlook for fund managers across the EC, though it would be a mistake to exaggerate Brussels's achievement. While the essential measures in Lord Cockfield's White Paper had been approved by the end of June, compromises and delays in implementation mean full liberalisation will be frustrated until the next century.

Two important bits of legislation giving banks and stockbrokers free access to the EC, for example, will not be in place until early 1996, though at one stage it looked touch and go whether effective investment services and capital adequacy directives would ever be adopted. The recent re-introduction of exchange controls by Spain and Ireland in the cause of defending their currency parities was an awkward reminder that the long, hard battle to remove controls on capital movements has not been completely secured.

Cultural and market realities, moreover, suggest that national attitudes will persist. But most of all there is just a hint of Euro-disillusion in the air - detectable in this month's decision by the French Bank Société Générale to sell its UK investment management subsidiary Touche Renant to Henderson Administration and rumours that Crédit Commercial de France is seeking a buyer for Framlington.

For UK fund managers, of course, September's breakdown of the ERM and the consequent check to the ambitions of monetary union enthusiasts may prompt a fundamental rethink. Many had bought the argument that funds should look at the European Community as their true home market - given the EC's apparent framework for a single cur-

rency - and adjust portfolio weightings accordingly. Though there will have been an obvious bonus on Black Wednesday for the many fund managers overweight in continental equities, asset allocation models in the new world of the floating pound will surely come under review.

In the same way that it was foolish to believe that currency risk had been eliminated by the ERM straitjacket, it would be a mistake to think that the process of European convergence has gone into reverse.

## The regulatory changes have altered the outlook for EC fund managers

Recent figures demonstrate that the correlation in performance of the eight leading EC stock markets has in every case increased over the past 10 years. The declining influence of the US in the trade patterns of the UK and the Netherlands - and the proportionately greater volume of intra-European transactions - also suggest that convergence continues to accelerate.

Hopes, meanwhile, that Europe's pension fund industry would quickly move towards integration have had to be scaled back. Pension funds represent more than 85 per cent in the UK and the Netherlands. Switzerland is another mouth-watering prospect with an estimated \$100bn of funds under management and a system recognisable to the Anglo-Saxon eye. Efforts by the sales arms of the big London-based investment management firms to prise away from local control even a small proportion of this wealth have generally proved disappointing. "The major Dutch pension funds are no doubt getting sick of us knocking on their doors," observes the director of one substantial UK-based group.

The different structure of pension provision across the EC, of course, remains a hurdle. Only in the UK and in the Netherlands, for example, are pensions provided for and managed in separately pooled pension funds. The French and the

Italians are among those who operate a pay-as-you-go system, whereby the present generation of workers essentially pays for its predecessors. In Germany there is some use of tax exempt special funds but generally pensions are paid out of a company's own assets (provided for in the balance sheet under a special reserve).

An intriguing question for the 1990s is whether the big international groups will be able to make headway in the more difficult markets. Fleming Investment Management is "looking hard" at what is required to produce the right structure for a pensions business in France. "We reckon that for legal reasons it will probably have to involve an insurance dimension, though we are still thinking about just what sort of relationship will be required between the fund manager and the insurer," says Mr Patrick Gifford, director and head of marketing.

In practice it is hard to see the EC's draft pension fund directive having more than a psychological effect. The draft stipulates that member states will not be allowed to require pension funds to invest in particular categories of assets, or to localise their assets in particular member states. Member states will not be allowed to restrict the freedom of pension funds to choose an investment manager or asset custodian established in another member state. In practice, though, this is unlikely to alter present practice; in most countries funds would have to increase the exposure of most asset classes before they were up against national limits.

The proposed directive, moreover, fails to liberalise the cross-border membership of pension funds. This may happen in time, but negotiations on minimum vesting and funding requirements, employee representation and tax harmonisation were thought likely to be too delicate and time-consuming. It is significant, though, that some multinationals (notably IBM) have moved to centralise the investment management of their various European pension funds.

Tim Dickson

THE benefits of derivative products are being aggressively marketed to international fund managers by banks and futures and options exchanges keen to corner a potentially vast, and still largely untapped, market.

There is a growing interest in the applications of derivatives for hedging exposure (protecting one position by taking the opposite position in a derivatives market) and for asset allocation (shifting exposure from one market to another, without changing cash holdings). A future obliges the holder to buy or sell at a set price at a future date, while an option gives the holder the right, but not the obligation, to buy or sell. Futures are of particular use in asset allocation, while options can be used for stock selection.

Not surprisingly, given the growth of index-tracking and the increasing emphasis on asset-allocation, the largest single growth area has been index products. Volume in the FT-SE 100 future, traded on the London International Financial Futures & Options Exchange (Liffe) has exceeded 2bn contracts so far this year, up 57 per cent on the same period last year, while FT-SE options volume has increased 46 per cent.

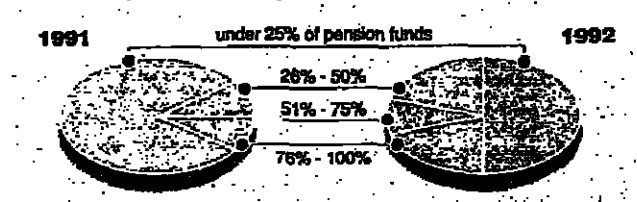
Many fund managers are still resistant to over-the-counter products offered by banks, partly because of the credit implications, and also because

## European fund managers lag behind the US in the use of derivatives

## Market is still untapped

## Use of futures and options by UK pension fund management groups

There has been a significant increase in fund managers' use of futures and options. Five out of 10 of the pension fund managers surveyed now use futures and options in more than a quarter of their pension funds.



Source: IFMG Management Consulting

they fear such products will lack liquidity. In addition, some of the exotic options developed by banks are considered too complex. "The banks are often too far ahead of their customers," one investment banker admitted. But European fund managers still lag behind their US counterparts in the use of derivatives.

For example, the equity swaps market, which has now gained a foothold in the US, has yet to catch on in Europe, in spite of being widely marketed by banks.

Possibly, certain aspects of the concept hold particular appeal for US fund managers. An equity swap allows fund managers to invest in a foreign market without assuming currency risk, which is often separated from other investment decisions.

Further, the ability to transfer expertise in one class of asset to another is often seen as a positive factor by US investment managers.

But the most important difference is that US investors are now geared to indexation, and the equity swap, which simulates the performance of a stock index, is most attractive to fund managers whose target is to outperform an index.

In an equity swap, one counterparty receives a stream of payments which replicate the return of a direct investment in an equity index, and in exchange makes a stream of payments to the other counterparty based on, usually, the London interbank offered rate. In France, the spread of equity derivatives may have received something of a setback. French institutional investors have in recent years been active buyers of bonds with embedded put and call options.

The use of bonds with embedded options allows some investors to circumvent regulations on derivatives. But some of the index-linked bonds were priced expensively and have performed poorly.

In the UK, the spread of derivatives has reached a new stage, as the early barriers, in particular resistance from trustees, have largely been surmounted. The clarification of fund managers' tax position in the 1990 budget proved a turning point, and, more recently, guidelines on performance measurement have boosted confidence in fund managers' ability to manage derivative positions.

Although there have been some negative experiences, the availability of liquid futures and options contracts during recent periods of extreme market volatility has won some hearts. The availability of such products "has made life a lot easier for fund managers," said Mr Tony Whalley, investment

director at Scottish Widows Fund and Life Assurance. "When fund managers felt the (stock) market had gone too far (down), they were able to buy futures, rather than having to worry about stock selection," he said.

Liquidity has become increasingly concentrated in the exchange-traded futures and options markets, and has become a crucial incentive for using exchange-traded products.

"Futures enable you to do what you would have done anyway more cost effectively and more quickly, without disturbing the underlying portfolio," according to Mr Tim Bredon, associate director, investments, at Legal & General, the UK insurance company.

The UK is expected to be the largest growth area for derivative products within Europe. Partly, this is because the use of derivative products based on fixed-interest bonds is already quite well established. The more recent expansion of the equity derivatives market will have the greatest impact on UK fund managers, because of their concentration on stock rather than bond markets.

Tracy Corrigan

## Richard Waters on the challenges facing the global custody business

## Technology breaches the barriers

THESE days, intermediaries in the securities markets are so busy encroaching on each other's turf that it is not easy to see where global custodians start and where they stop. Fund managers, brokers, settlement houses, custodians: technology is breaking down the barriers between all these intermediaries so fast that the shifting profile of the industry is sometimes difficult to pin down.

The latest of these developments is taking fund managers increasingly into areas which until now have been the preserve of custodians. Last year, after a rearguard action by a

number of large US banks, fund managers were admitted to Swift, the international financial communication system. In theory, that gives them access to the same messaging system used for interbank payment and other instructions, allowing them to bypass banks should they so wish.

The second advance has been the move by a number of big fund managers, prompted by Fidelity, to sponsor the development of a number of competing electronic trade confirmation systems. These will allow fund managers to confirm details of bargains they have entered electronically, rather than waiting for slower fax or telex messages.

By the 1990s, these confirmation systems, that have been launched, all of them aimed at the European market. The fund managers who have promoted the development of these systems hope their specifications will be used as the basis for similar products in the US and Japan, making it possible (once bridges between the systems have been created) to confirm trades in all principal markets around the world. The creation of such electronic services - and the

admission of fund managers to communication networks such as Swift - point to a move by large fund management groups to take greater control of the process that follows the completion of a securities trade. The desire to reduce costs and risks has motivated such developments. Membership of international settlement houses such as Euroclear and Cedel could be the next step, as fund managers cut out even more of the work done by the middle-men.

These developments have come against a background of price-cutting by custodians. Like other activities in the securities industry, success depends on volume: faced with the high fixed costs of building and maintaining the necessary technology, it is the custodians which can push through the largest volumes of transactions that will do best. Most have built proprietary systems for their custody clients, and now face the added problem of amortising the costs of these systems faster as the clients demand more flexible systems that allow them to communicate with a number of different custodians.

Despite these pressures,

there are still plenty of opportunities for making a profit out of the custody business. These come either from the extension of the basic custody service into new markets - the emerging equity markets, for instance, or derivatives - or from the kinds of extra services custodians can sell on the back of custody.

The emerging markets have become one of the biggest headaches for the back-office staff of fund management firms. The cost of dealing in these markets, and the risks incurred in failed trades, are difficult to control. Not surprisingly, the charges made by custodians are higher for this type of business. "Margins are higher the further away from mature markets that you get," says Mr Julian Gibbs of Barclays Bank. Despite the higher costs, it is difficult to find custodians willing to take on the settlement risks in emerging markets. When offering "contractual settlement", under which investors are guaranteed settlement on the due date, custodians also retain the right of recourse against the investor if trades fail.

Derivative markets provide a

different opportunity. Many financial institutions around the world are still trying to come to grips with the difficulties of valuing their derivatives portfolios and finding ways of measuring and managing the risks they entail. Those banks which have been longest in the derivatives business and which also act as global custodians are well positioned to offer help in these areas to investment managers.

Meanwhile, custodians continue to make money out of services which have traditionally sat alongside custody: stock lending, foreign exchange and cash management.

The first of these services has come under scrutiny in the UK in recent months in the wake of the stripping of assets from the Maxwell pension funds under the guise of stock lending. Under review now is whether fund managers should themselves be able to control the movement of stock, or whether this should rest with separate entities. Any such development would partially reverse the process which has seen fund managers encroaching more on the custodians' territory.

## Barry Riley discusses benchmarks and measurement

## Plethora of indices at hand

TRADITIONALLY most - if not all - fund managers have performed better than the average, and have been more than happy to provide figures to prove it. But the age of statistical sleight-of-hand may be passing, with the advent of more rigorous measurement techniques and the increasing tendency for clients to set very specific performance benchmarks.

Investment authorities around the world have recently been attempting to clean up performance measurement standards. In the US, for instance, the Association for Investment Management Research has established so-called Performance Presentation Standards, which will become effective at the beginning of 1993. And in the UK a voluntary Pension Fund Investment Performance Code has been introduced by the National Association of Pension Funds and other trade bodies, effective from the middle of this year.

A plethora of indices is available to provide the benchmarks against which portfolio performance can be measured, but just two series of equity stock indices dominate the picture for global equities.

The older series, the Capital International Index sponsored by the New York investment bank Morgan Stanley, is especially well-entrenched among American funds and consultants. A more recent and easily available rival is part-sponsored by the Financial Times, the FT-Actuaries World Index series which appears daily in the FT. It is also backed by another US investment bank, Goldman Sachs, and by the UK's County NatWest.

These global indices are constructed on a building

block basis, so that individual country indices - there are 24 in the FT-Actuaries series - are combined to create various regional, continental and global benchmarks. Common principles include capitalisation weighting, so that the indices track actual portfolio behaviour, and some regard to the availability of individual stocks to international investors, who in some countries face restrictions on what they can buy.

There are also national and international bond indices, notably the Salomon Bros

assets cannot be compared with any single index. Also, sponsors often want to know how much risk their fund managers are taking. "The peer group approach allows a measurement of risk around the index," he says.

But specialist funds invested in one particular asset class are more suitable for measurement against an index-related benchmark.

There have, however, been problems in the past with indices applying to less efficient stock markets subject to distortions.

## Investment authorities have been attempting to clean up performance measurement standards

World Government Bond Index. Other leading broking houses produce their own indices - such as the series of Global Benchmark Bond Indices produced by Union Bank of Switzerland.

Even in the esoteric world of bond indices, however, there are controversies. Salomon has upset some bond managers by its month including Italy in its world index, because some doubt whether Italian debt can any longer be regarded as of high quality.

The use of equity indices can be controversial, too. Some prefer a quite different approach to the benchmark problem, which is to compare a fund's performance with that of competitors with a similar investment objective. This is very common with British pension funds, for instance, which are routinely measured against the average or median fund.

Mr Dugald Eadie, chairman of the Edinburgh-based World Markets Company, performance measurement specialists, explains that balanced funds investing in different types of

Japan is the best example, where principal sectors such as financials (and until recently the telephone company NTT) have been difficult or impossible for international funds to invest in.

During a particular year the foreign managers have therefore tended either all to underperform or outperform an index such as TOPIX. The peer group approach can therefore be more satisfactory.

But there can be conceptual problems when benchmarks are tailored too specifically to the requirements of fund managers.

Mr John Clapp, chief executive of another UK-based performance measurement company, Combined Actuarial Performance Services (Cape), points out that British pension funds tend to be dissatisfied with a straightforward World ex UK benchmark for international equity portfolios. "For certain funds the view is being taken that the spread of the world index on a market capitalisation basis is incorrect," he says. This is because British

pension funds usually have a lot more invested in Continental Europe than, say, in Japan, although capitalisation weights would suggest the reverse.

Therefore a customised peer group benchmark is calculated by Cape, using individual country indices weighted by the geographical split of the average pension fund.

Timeliness, however, can also be a factor in the choice of benchmark, according to Mr Eadie.

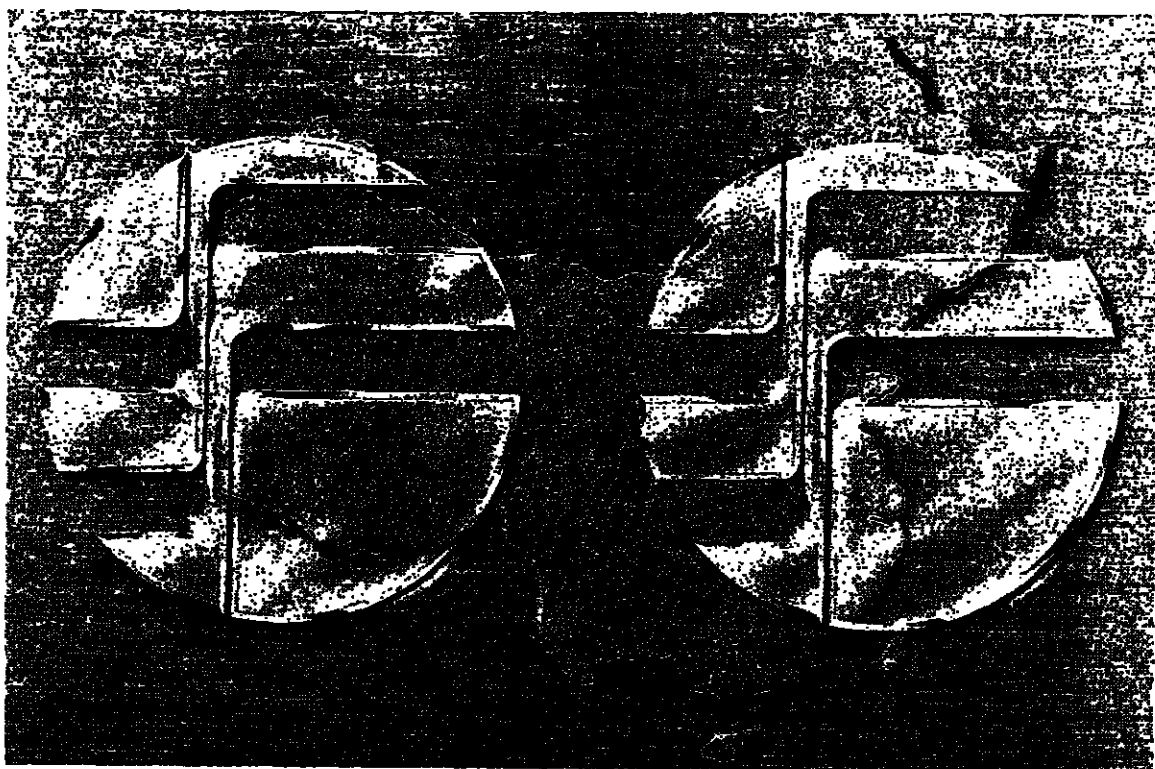
"Index benchmarks are available very quickly, within two days of the end of the quarter," he says. "Peer group averages may take many weeks."

In the UK pension fund industry, according to Mr John Clapp, there is in practice roughly a 50-50 split between index-related and peer group benchmarks.

Meanwhile, more and more indices are being created, and increasingly sophisticated benchmarks are being devised. In the US there are large cap, mid cap and small cap indices and managers are also categorised according to growth, value and many other styles.

Consultants are designing benchmarks on a mix-and-match basis, and they can be individually tailored for a whole range of specialist managers mandated by a pension plan. Such capitalisation-segmenting indices have now appeared in the UK with the publication of new FT-SE indices such as the Mid 250.

The question, however, is whether complex benchmarks based on a variety of sources will actually help clients, or whether the trustees and other sponsors will end up being bamboozled. "It's a very real danger," admits Mr Clapp.



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